

**AN EVALUATION ON IMPLEMENTATION OF DECENTRALIZATION  
IN INDONESIA**

**By**

**Deny Junanto**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF PUBLIC POLICY**

2006

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## **ABSTRACT**

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Decentralization in Indonesia has experienced the up and down since its independence. Central and local government relationship has changed several times. At the beginning, central government held a great power over regions. In particular, after being colonialized for long time, the new Indonesian government exercised strong centralization in order to keep unity and freedom of the country. However, the attention of decentralization became discourses at that time. The central government supported regional autonomy by passing the first law of decentralization. Unfortunately it was never implemented appropriately.

Before the Law 22/1999 was enacted, the decentralization is never really put into practice. The reluctant of central government to devolve the authority to local government was a major problem. Following the economic crisis and local unrests, central government finally implemented the decentralization that started from year 2001.

Nevertheless some years into decentralization, the outcome was not as expected. Problems such as conflict of interest between central and local governments,

inadequate capacity of local governments to perform their new functions, unclear law and deregulation, lack of accountability hampered the intention of decentralization.

Indonesian government passed the Law 32/2004 to improve the decentralization. The major distinction between the new law and before is about strengthening role of provincial government and direct election of heads of local government. However, except the direct election of heads of local executive, the impacts of the new law were still insignificant for decentralization in general.

In order to develop decentralization process, the thesis evaluates the decentralization policy from the aspects administrative empowerment, fiscal empowerment, and the monitoring system on local government by central government. Afterward, necessary recommendations are given. Some of them are: the vision when interpreting decentralization policy and autonomy concept has to equal in all government levels; the entire of government layers have to demonstrate their strong commitment to support decentralization policy for the sake of people as their stakeholder; central government agencies must provide supporting regulations to facilitate the amendment of local legislation, which is believed inconsistent with the decentralization law.

**Dedicated to Ibu, Bapak, Trixie and Diva**

## **ACKNOWLEDGEMENTS**

First of all, my gratitude to the Almighty God Allah SWT, without His guidance it was impossible for me to finish this paper. As well, I want to thank my beloved Mom and Dad, my lovely wife Trixie and daughter Diva who always giving me generous support and prayer all the time.

Furthermore, I am exceptionally grateful to the Dean Professor Chin-Seung CHUNG, all respected professors and staff of KDI School of Public Policy and Management who have given me very useful knowledge and very kind assistance – in particular Professor Jin PARK for his precious time and valuable advices on this paper.

Finally, I also would like to thank the chairman and all staff of National Institute of Public Administration of the Republic of Indonesia who permitted and supported me to take a master program in Korea. I know my paper is still far from perfect, but I hope it could give a little contribution to the public administration development in Indonesia.

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## **I. INTRODUCTION**

### **A. Background**

Decentralization in Indonesia that started in the year 2001 has not been through with a long process. Throughout the history, after 32 years experiencing highly centralized, Indonesian government shifted into decentralize system. This was a strong reaction of centralized system that did not satisfy most of the regions and local people. Some analysts called this phenomenon as a 'big-bang'. Actually the law of decentralization has been enacted several times but the implementation itself still far from ideal.

Apparently decentralization is a better alternative yet still imperfect, related to the Indonesia's demography. It consists of 17,000 islands with more than 230 million people. Realizing the situation and people's demand, in 1999 government enacted the Law No. 22/1999 about Local Government and Law No. 25/1999 about Fiscal Balance between the Central Government and the Regions. These two laws are the fundamental law for decentralization implementation, even there were several laws concerning decentralization since Indonesian independence

However, from the 2001 when it started to prevail, the acceleration of decentralization is still facing many problems. The outcome is still far from the expectation. The local governments' capacity in managing their own people and territory was not good enough. The preparation was ridden with problems, had to meet tight deadlines, and was far from completed by the time regional autonomy took

effect. Within one year, the decentralization much of the responsibility for public services to the local level, almost doubled the regional share in government spending, reassigned 2/3 of the central civil service to the regions, and handed over more than 16,000 service facilities to the regions. Indonesia also implemented a new intergovernmental fiscal framework, which relied largely on a general grant rather than the earmarked grants of the past, and gave natural resource producing regions a share of the resource revenues.

Several years into decentralization, the assignment of functions over levels of government is far from clear. The lack of clarity is in part due to weaknesses in the decentralization laws themselves. Conflicts in implementing regulations and sectoral laws that is out of line with Law 22/1999 play their part as well. Even some of the implementing regulations for Law 22/1999 itself seem to contradict the Law. Furthermore, a Presidential Decree gave some agencies temporary exemption from decentralization, for instance those for land and investment approval, thus further blurring the division of responsibility over levels of government.

Meanwhile, based on Law No.22/1999 decentralization over budgetary issues is mainly to apply to the expenditure side not on the fiscal or revenue side. As the result, even though the regions now have the authority to decide how to allocate their budget, they do not have revenue-raising powers. The regions are still heavily dependent on transfers from the central government. Regardless of this lack of fiscal autonomy, there is a lot enthusiasm for decentralization in the regions and this enthusiasm appears to be rising. Enthusiasm as such on the part of local government has generally resulted in the creation of many more regulations regarding local taxes

and levies, excluding income and assets. This trend has been reinforced by the perception that autonomous local governments should have the authority to manage and generate revenue. Moreover, many local government officials think that the successful implementation of decentralization will eventually depend to a large extent upon their capability to extract local revenues. The problem is that increases in local taxes and levies, excluding income and assets, have not been matched by the provision of better services. Regularly the local taxes and levies are being raised without any corresponding increase in the provision of services by local governments.

In order to overcome those problems, Indonesian government passed the Law No.32/2004 to revise Law No.22/1999 and Law No.34/2004 to improve Law No.25/1999 about Local Government and Fiscal Balance respectively. Nevertheless, the impact of these two laws is still small on the decentralization improvement in general, even though there are some changes emphasize more on political aspects.

Basically the initial intention of decentralization is to closer the government as service provider to the people as consumer. Decentralization has close correlation with authority. From the year 2001, the central government in Indonesia has transferred the authority to local governments for the purpose of better service delivery, accountability and administration.

Regarding to those situations occurred, therefore, this thesis would like to analyze the implementation of decentralization based on administrative empowerment, fiscal empowerment, and the monitoring system on the local government by the central government issues.

## **B. Research Questions**

Based on the emerging decentralization issues in Indonesia, the thesis would like to answer some questions that are:

1. To what extent the administrative empowerment, fiscal empowerment and the monitoring system on the local government by the central government have been implementing since the year 2001?
2. What is the problem occurred and the impact of it?
3. How to overcome the problems?

## **C. Objective**

The objectives of the thesis:

1. To evaluate the implementation of decentralization policy in Indonesia since the year 2001.
2. To give recommendation in order to improve decentralization policy.
3. As one of the prerequisite for achieving Master of Public Policy Degree in KDI School of Public Policy and Management.

## **D. Thesis Structure**

The thesis is divided into 6 (six) chapters that can be illustrated in detail as:

Chapter 1. Introduction. This chapter consists of background, research question, objective, and thesis structure.

Chapter 2. Theoretical Framework. This chapter explains some fundamental theories

about decentralization that are used for analyzing decentralization implementation in Indonesia.

Chapter 3. Methodology. This chapter describes the method and strategy that are applied in this thesis.

Chapter 4. Decentralization in Indonesia. This chapter describes the history of decentralization, current decentralization, and government structure after decentralization.

Chapter 5. Evaluation on Implementation of Decentralization. This chapter evaluates decentralization with emphasizing on the administrative empowerment, fiscal empowerment and monitoring system on the local government by the central government in Indonesia.

Chapter 6. Policy Recommendation. This chapter gives some recommendations about decentralization performance in Indonesia.



## II. THEORETICAL FRAMEWORK

A major obstacle to the effective performance of public bureaucracies in most developing countries such as Indonesia is the excessive concentration of decision-making and authority within central government. Public sector institutions are commonly perceived to be geographically and socially remote from ‘the people’ and to take decisions without knowledge or concern about actual problems and preferences. The popular remedy for such centralization is decentralization, a term which is filled with many positive connotations—proximity, relevance, autonomy, participation, accountability and even democracy. So great is the appeal of decentralization that it is difficult to locate a government that has not claimed to pursue a policy of decentralization in recent years.

In reality, all national leaders have no choice but to decentralize some decision-making and authority. Total centralization (all authority being vested in a single individual who takes all decisions) is infeasible even for the most efficient autocrat in a micro-state. The needs of the modern state to provide some services to at least part of its community, to exercise political control over its territory and to bolster its legitimacy require that a degree of authority is delegated and some decisions are made outside of the political and administrative center. In consequence, all systems of government involve a combination of centralized and decentralized authority. However, finding a combination of central control and local autonomy that satisfies regime needs and popular demands is a persistent dilemma for governments. Centralization and decentralization are not attributes that can be dichotomized, rather

they represent hypothetical poles on a scale that can be calibrated by many different indices.

#### **A. What is decentralization?**

Most authors are agreed that decentralization within the state involves a transfer of authority to perform some service to the public from an individual or an agency in central government to some other individual or agency which is ‘closer’ to the public to be served. The basis for such transfer is most often territorial, that is grounded in the desire to place authority at a lower level in a territorial hierarchy and thus geographically closer to service providers and clients. However, transfer can also be made functionally, that is by transferring authority to an agency that is functionally specialized. Such transfers of authority are of three main types. The first is when the delegation is within formal political structures; the second is transfer within public administrative or parastatal<sup>1</sup> structures; and the third is when the transfer is from an institution of the state to a non-state agency.

If the transfer of authority from central government to a decentralized agency is to be effective then it must be matched by a transfer of responsibility; that is, the decentralized agency must provide the particular function(s) for which it now has authority. This will require the creation of additional or new modes of accountability by which the decentralized agency accounts for its performance to a higher authority. When authority is delegated by devolution, a typical accountability mechanism is local elections in which the local population is ultimately the ‘higher authority’. With

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<sup>1</sup> Owned or controlled wholly or partly by the government.

deconcentration the additional accountability mechanisms are usually within the bureaucracy, although ultimately a minister or national leader may be seen as being accountable to national political institutions for the deconcentrated actions and performance. When authority is transferred to parastatals and quangos <sup>2</sup>, accountability mechanisms, although often specified in legal documents, become somewhat diffuse.

It must be noted that decentralization does not imply that all authority should be delegated. The central government must retain a core of functions over essential national matters and ultimately has the authority to redesign the system of government and to discipline or suspend decentralized units that are not performing effectively.

Ideally in such a society all its members should be involved in ensuring the public interest. Decentralization of power and local solidarity are principal means to counteract the threats to freedom that any gap between rulers and ruled implies. The shreds of full citizen participation in government in industrialized countries are now small historical curiosities. Representative systems are widespread, but the extent to which they represent the diversity of interests in modern society is generally very limited.

Decentralized organization and management developed as a response to changes in society, to government legislation and to changing concepts of management. Even though in practice they may be linked in authorities, distinction can be drawn between:

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<sup>2</sup> The UK government's definition of a Quango is: "A body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers."

- Geographical decentralization for better access and more responsive services;
- Political decentralization for community involvement and strengthened representative democracy;
- Management decentralization for greater organizational effectiveness;

Each organizational change challenges the continuities built into the workings of local authorities.

## **B. Development in Decentralization**

Local authorities have recognized the need to develop more responsive services in the face of changing public attitudes. There has been recognition of the need to create a more flexible organization, and the centralized procedures of the local authority have been seen as a source of rigidity. At a time of financial constraint centralized controls, far from ensuring the efficient use of resources, have restricted the capacity of managers to deploy them effectively in relation to the problems faced. There has been a wide-ranging concern in political parties at what are seen as the rigidities of bureaucratic working in local authorities.

The changing framework of ideas brought about gave support to the pressure for decentralization. The dangers of centralization are being given greater emphasis in thinking about organizations on the role of the center. Handy (1985) has even suggested that decentralization may not be enough and that the organization of the future may have a federal structure:

Federal organizations ... will rely on a small nerve center coordinating a range of small, nearly autonomous operations which can be widely dispersed geographically. The concept of a holding company which has been a financial and legal reality will begin to mean more in strict organizational terms and will be as common in the integrated manufacturing company as it is in the financial world.

All these different factors have contributed to the interest in decentralization that has developed in local government. Decentralization in authorities takes many different forms reflecting in part the different problems in the centralized structures at which they are directed:

- Concern about the lack of accessibility caused by geographical centralization and about the style of working encourage by centralized offices is leading to the development of local offices either on a service basis or on an authority-wide basis, normally called neighborhood offices;
- Concern about the lack of control by people over the services provided is leading to proposals for extending community control, or for developing the role of the councilor as representative of an area;
- Concern about the constraints upon effective management resulting from organization centralization is leading to schemes for devolved management which may stress either the need for greater management, effectiveness in deploying resources or greater responsiveness to the public.

### **C. Geographical Decentralization**

Local authorities have normally centralized control over their services in the central offices. The position has, of course, varied from service to service. Some services are necessarily provided locally because they are delivered by fieldworkers, such as environmental health officers or agriculture technical assistants. But the fact that a service is delivered locally does not necessarily mean that access to the service can be achieved locally, or business about the service be conducted locally. Thus, although council housing is necessarily a local service, until recently access to the service in many authorities could only be secured through the central offices. Indeed under the impact of the dominant organizational assumptions, the trend was to reduce direct contact with the tenants on estates.

Meanwhile other pressures were at work within the arena of public housing management, mainly the desire to minimize the cost and staff commitment of an exploding service. Other services such as education, health, public works services are necessarily provided in local premises to which access is normally possible—at least for those who have found their way in the local authority system.

Social services had recognized the need for area organization at the time of the formation of the new departments. Area organizational structures reflected the requirement of each separate service organization and not the needs of the people served.

However, a new approach was adapted to area organization which focused on the people served through the development of neighborhood offices. The issue of access was seen as important, but more was involved than access. The intention was to create 'a new style of working' focusing on the needs of the public. It was often associated in rhetoric, if not always in reality, with an emphasis on community control. The change to local offices was likely to lead to management decentralization, but the emphasis was on 'going local' to ensure greater access by, greater responsiveness to, and even greater control by, local people, and in some instances the management implications were not fully worked out.

There were organizational changes through the creation of the position of the neighborhood officer who was responsible for the overall management of the office. The intention was to create a style of working in the neighborhood offices that challenged traditional departmental working.

Neighborhood offices on a cross-service basis which have also developed in other authorities have been effective in improving access and in encouraging a style of working that is responsive to the public within the limits of the discretion available to staff. Whether the creation of neighborhood offices involves more fundamental change is less certain. There was an aspiration amongst the advocates of decentralization that challenged traditional departmentalism. In practice, neighborhood offices have often been added on to structures that remain based on departments.

Neighborhood offices in the widest sense of the term have not developed to

anything like the extent to which its advocates hoped. A number of local authorities which attempted to develop neighborhood offices had to abandon the attempt. The reasons why local authorities have not pursued their aim varies. Cost is clearly a factor. In some authorities trade-union attitudes were seen as creating problems.

It may well be that there is a more fundamental reason. Where the wider local authority organizational and political structures remain departmental, neighborhood offices that aspire to a new style of working are in effect operating against the basic assumption of the structure.

In practice it has been much easier to create local offices on a departmental basis. There have always been such offices but recent years have seen a marked extension in housing, where it has also been associated with the growth of the generalist housing officer.

Although movement to geographical decentralization has proceeded furthest in particular departments, to an extent the point remains the same as for wider decentralization. By itself it has limited value. Access is improved, but geographical decentralization changes little else, unless the department or the authority is prepared to change its way of working at the center of the authority—and that must involve political change as well as change in officer structures.

#### **D. Political Decentralization**

The changes discussed so far have been concerned with geographical decentralization



of the officer structure. They have been mainly concerned to improve access for the public as customer, although they have also been concerned to alter the style of working. Those approaches can be regarded as largely representing what Hoggett and Hambleton have described as consumerist approaches. One theme that runs through such approaches is 'the desire to focus more attention on the quality as distinct from the quantity of service' (Hoggett and Hambleton, 1987).

There have also been (sometimes associated with these changes) movements towards political decentralization or devolution. These belong to what Hoggett and Hambleton describe as collectivist solutions, which embrace wider objectives 'relating to strengthening local democracy (as a contribution to sustaining democracy as a whole) and diffusing power and responsibility within society'.

A broad distinction can be drawn between decentralization based on the representative structure of the council and decentralization directly involving the public although in practice development of the former approach can lead on to the latter.

In the traditional local authority, the role of the councilor in the working of the authority is focused on the service or central committee structure or in any other part of the organization to the role of the councilor as representative for an area. Of course, the councilor raises issues on behalf of his or her constituents and they are dealt with in the officer structure. Councilors hold advice bureaux in their wards or electoral districts and are generally concerned with their areas. However such activities and concerns lie outside the working of the council, as represented by its formal structure

and processes. Concern for the area runs counter to the traditional ways of working. A councilor who is elected to represent an area is turned by the working of the authority towards a concern for the running of services—from being a representative of the public into an advocate for the service. Councilors whose main concern is for their area are often spoken of as ‘parochial’ or as mere ‘political welfare workers’.

Strengthening the accountability of the authority to the public and the responsiveness of the organization to the political process can build on the role of the councilor as an elected representative through the development of new settings within the working of the authority. There is a distinction between local authorities which have created settings to give expression to the representative role of the councilor within a structure still organized on traditional lines and the exceptional authority that has changed that structure.

Based on research conducted by Stoker and Lowndes (1991), each neighborhood has developed a particular character and way of working, a reflection of the political priorities of its councilors and the managerial quality of the senior staff that were appointed to operate in each neighborhood.

Their conclusion that it was successful as a platform its customer oriented policies. It ensured that officers serving the public were accessible, knowledgeable and keen to provide service. They identified problems, however, in handling strategic issues and in providing specialist cover. Decentralization does not necessarily remove the role for the center.

While decentralization brought advances, the need for a center remained. Some of the local authorities that have adopted the first or more limited approach have created new institutions for community involvement. Authorities which have introduced neighborhood offices have also developed new forms of community involvement as have other authorities.

Such developments are more about opening the local authority to greater public influence rather than the transfer of substantive powers to direct public control. They, therefore, only go a limited way in achieving the aims set out by Hoggett and Hambleton. They can strengthen local democracy but do not go far in diffusing powers. Where a transfer of power has developed it has normally been in the control of specific facilities on estates as in user control of leisure centers or tenant control of estate management, usually within policies and procedures laid down by the authority.

Nevertheless all these developments challenge traditional ways of working and the organization assumptions on which they depend.

### **E. Management Decentralization**

The traditional working of local authorities has been organizationally centralized as a result of detailed control by service committees and departmental hierarchies as well as central committees and departments. Detailed control is not necessarily effective control. Because the focus is on direct control as it happens, the emphasis is upon particular decisions. There is no need to specify what is required in advance because decisions are taken as they arise but that can mean a failure to specify requirements to

be met by management. Detailed control and centralization, whether exercised over departments can weaken management effectiveness. A manager who has to seek approval for detailed decisions, on staffing changes or virement<sup>3</sup> between budget heads, becomes a resource bidder rather than resource manager, deploying resources in the most effective way to meet the authority's requirements. It weakens management responsibility and limit management initiative. Detailed control reduces the capacity of the authority to respond to the public in ways that better their requirements within the purposes of the authority.

Detailed control is challenged by the development of compulsory competitive tendering and of contract management, where what is required is specified in advance. It is also challenge by the legislation on local management in schools which reflects in theory if not always in practice a concept of control.

Coopers and Lybrand (1981) argued that the underlying philosophy of financial delegation to schools stems from the application of the principles of good management. Good management requires the identification of management units for which objectives can be set and resources allocated; the unit is then required to manage itself within those resources in a way which seeks to achieve the objectives; the performance of the unit is monitored and the unit is held to account for its performance and the use of funds.

But it was not merely government legislation that challenged the assumption of direct control. The interest in a new rhythm of control based on specifying

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<sup>3</sup> The authorized transference of funds from one account to another.

requirements, giving management responsibility and enforcing accountability derived from a wider search for both effective and responsive management.

The Audit Commission (1988) in the Great Britain had argued strongly for decentralized financial management. If councils are to make the maximum use of their management potential and financial resources, it is essential to involve line managers more closely in the financial control process. This requires a number of developments:

- Every part of a department's budget should be assigned to a designated 'budget-holder'—typically a front-line manager such as a head teacher or the manager of a recreation center who should take the lead in preparing his or her own budget;
- Each budget-holder needs to receive clear and prompts reports showing what they have spent to date, and compare this with the budget. Financial systems should be aligned with management responsibilities.
- Managers should then accept a greater degree of responsibility for their own financial control.

The Audit Commission also argued not merely for decentralized financial management, but generally the only way properly to harness politics and management is for members to assign very clear responsibilities to officers, to set a framework of accountability and then let them get on with it.

Decentralized management is not easily introduced. It requires the

identification of cost centers to which both management and financial responsibilities have to be related. Financial data and accounting procedures have to be related to the cost centers, which is likely to require new financial information systems. But it is not sufficient to allocate budgets to cost centers and hold managers to account for those budgets. The management targets have to be specified for performance as well as the policy constraints within which the managers have to operate. Procedures have to be introduced both for setting targets, assessing performance and holding managers to account.

These obstacles can all be overcome. The financial information can be produced and procedures introduced, although they will need time and care. It has to be realized, however, that introducing decentralized resource management involves more than technical and procedural change. Changes in attitude are required because of the change in ways of working.

Without such changes in attitude, managers used to seeking permission for movement may be reluctant to take responsibility for their own decisions. They may not be ready to think positively and innovatively about the redeployment of resources having been trained by experience to regard such redeployment as the exception requiring special permission, rather than as a normal part of the management task. In particular they may feel ill-equipped for financial management, and may thus be reluctant to exercise their new responsibilities.

It is not simply the head of the cost centers who have to change, the role of central departments also have to change—as have the senior management of the

service departments. Their role does not disappear—far from it. The cost centers have to operate within a policy and financial framework with which both central departments and the senior management in departments must be involved. As with other aspects of decentralization, it does not involve the abolition of the role of the center but its redefinition. Redefining the role of the center and the development of decentralized resource management has to be considered together.

The center—whether those in the central departments or in the department themselves have to learn to stand further back, but not to stand back completely. It has to make its expertise available and yet not impose it—for it has to learn to help when it knows it would come more easily to act directly.

Decentralized management covers not only financial but also human resources, reorganization, relations among authorities and other efforts that improve good management. The central government plays significant role to give clear direction and regulation to local governments. All of these aspects are closely related to each other.

## **F. Success Factor of Decentralization**

Leach, Steward and Walsh (1994) argued that the different forms of decentralization vary in the extent to which they have been adopted:

- Management decentralization within departments has been more readily achieved than management decentralization across departments;

- Decentralization of access has been more readily achieved than decentralization of decision-making;
- Decentralization of decision-making within the officer structure is more widespread than devolution of power to area committees or to local communities.

Therefore the greater the challenge to existing ways of working, the more difficult they are to achieve.

The working of local authorities has been based on a professional tradition. That is challenged by neighborhood organization on a cross-departmental basis. It is even more deeply challenge by the devolution of power to the community or even to area committees.

The organizational assumptions on which the traditional-workings of local authorities have been based are directly challenged by aspects of decentralization. Decentralization of decision-making permits a diversity of response rather than uniformity of practice. Hierarchical control is lessened, while organization by area challenges functional organization. The political structure of local authorities is based on representative democracy, which can be seen as limiting the devolution of power to communities. Even the devolution of power to area committees may be seen as undermining majority control if it means (as it will in most authorities) giving power to at least some area committees controlled by the opposition.

Given the considerations, the devolution of management responsibility is the most widely accepted aspect of decentralization, since this can maintain departmental



control, does not necessarily challenge professionalism, and ensures the required degree of uniformity through the targets set and policy constraints on managers. Equally it is not surprising that the devolution of substantial political power to communities or even to area committees is the least accepted aspect of decentralization because of the extent of the challenge to existing practice.

Certainly decentralization has probably generally only led to modification of, rather than fundamental change in, existing ways of working. Where successful management decentralization has released management initiative, decentralization to local offices has led to improved access for the public, some improvement in working between neighboring staff drawn from different departments, and examples of more responsive service. None of these are unimportant gains, but they have not led to the fundamental alterations of political and management power that some advocates of radical decentralization sought. Professional power remains; the local authority is still a bureaucratic organization; political power remains with the council leadership.

The reason for the failure may well be that the advocates of radical decentralization failed to recognize that there are strengths as well as weaknesses in those principles they wished to challenge.

Professionalism brings real knowledge, real skills and real commitment, even though it can also bring rigidity, narrowness and an over-dependence on political on political authority. Bureaucratic organization ensure the large-scale delivery of service on a fair and impartial basis, even though it may improperly limit responsiveness; representative democracy can provide political leadership giving purposive direction

in a changing society, even though it can limit individual participation too greatly.

## **G. Conceptual Definition**

Based on the decentralization theories above, we can develop some concepts that are used for analyzing the issues in this thesis. There are three important issues related to decentralization which are administrative empowerment, fiscal empowerment, and the monitoring system on local government by central government.

The administrative empowerment can be explained as the transfer of duties from the central government to the local governments in order to improve access and more responsive services. The main duty is providing public services that previously provided by central government. Thus it also includes the transferred of civil servants from central government for the purpose of enhancing local government capacity.

Meanwhile the fiscal empowerment can be explained as the transfer of money from central government to local governments. Fiscal empowerment will enable local governments to take the right steps for over all growth with equity. The empowerment brings government truly closer to the people. It is also aligned with increasing demand of accountability.

Eventually the monitoring system on local government by central government means that central government admonishes, cautions, or reminds, especially with respect to matters of conduct to the local governments based on the decentralization law and regulations.



### **III. METHODOLOGY**

#### **A. Research Method**

The thesis employs evaluation research based on secondary data analysis. Evaluation is the systematic acquisition and assessment of information to provide useful feedback about some object. The generic goal of most evaluations is to provide “useful feedback” to a variety of audience, in example sponsors, donors, client-groups, administrators, staff and other relevant constituencies.

There are many different types of evaluations depending on the object being evaluated and the purpose of the evaluation. The most important basic distinction in evaluation types is that between formative and summative evaluation. Formative evaluations strengthen or improve the object being evaluated—they help form it by examining the delivery program or technology, the quality of its implementation, and the assessment of the organizational context, personnel, procedures, inputs and so on. Summative evaluations, in contrast, examine the effects or outcomes of some object—they summarize it by describing what happens subsequent to delivery of the program or technology, assessing whether the object can be said to have caused the outcome, determining the overall impact of the causal factor beyond only the immediate target outcomes, and estimating the relative costs associated with the object.<sup>4</sup>

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<sup>4</sup> Trochim, William M. The Research Methods Knowledge Base, 2nd Edition. Internet WWW page, at URL: <<http://trochim.human.cornell.edu/kb/index.htm>>

Thus formative evaluation is chosen because the objective of the thesis is to evaluate the implementation of decentralization in Indonesia based on theoretical background and to investigate the problems and impacts. Thus it can give alternative solution for the problems.

## **B. Data Collecting Technique**

Data and information are collected from secondary researches. Literature review is taken for the reason that the scope of research object is broad and extensive. Moreover evaluation research requires literature review. Therefore this thesis thoroughly exercises other researches and materials such as books, articles, and newspapers that describe the facts and status of decentralization in Indonesia as evaluation substances.

## **C. Data Analysis**

The thesis applies qualitative approach to analyze the data and information. It needs because we want to explore facts and evaluate empirical implementation of decentralization in Indonesia. Data and information is classified and evaluated based on theoretical framework, namely administrative empowerment, fiscal empowerment, and the monitoring system on local government by central government to acquire a comprehensive analysis.

## **IV. DECENTRALIZATION IN INDONESIA**

Within this chapter, we will see and analyze how decentralization policy has been implementing in Indonesia. Actually the policy debate and resulting directives surrounding center-region relations are not recent phenomena. Decentralization policy in that been implemented in 2001 was not the first decentralization attempt. It started when the Dutch colonial power issued its *decentralisatiewet* as a means of making its administration more efficient in ruling the population and extracting resources. This initiative was a response to the complex challenges facing the colonial establishment. However, the colonial power maintained strong central control and a rigid hierarchical system of government. When Japan occupied the archipelago from 1942 to 1945, wartime demands put a premium on centralization of powers in the hands of the Japanese forces.

### **A. Decentralization History in Indonesia**

After independence in 1945, the new republican government understood the importance of center-region relations and quickly issued laws on center-region powers that established more discretion on the part of the regions. Indonesia's first law that arranges regional autonomy was Law 1/1945. Regional autonomy and the rights of the regions were also specified in article 18 of the 1945 constitution. This established the Republic of Indonesia as a unitary state.

Nevertheless, the Dutch reluctant to give up their colonial empire and started

establishing several Indonesian republics on the islands outside Java, and all united under the Dutch crown. This was largely a political move against the Republic of Indonesia, aimed to support the argument that Republic of Indonesia was only one part of Indonesia that was seeking independence from the Dutch. This move resulted in the handing over of sovereignty to the United Republics of Indonesia—a federal state within a commonwealth with the Netherlands. It only lasted less than one year and the 1950 constitution reverted to a unitary state.

**Figure 1. Indonesian Archipelago**



Source: [www.id.eucorn.org/info\\_map\\_id.html](http://www.id.eucorn.org/info_map_id.html)

The period of liberal democracy in the early and mid-1950s provided for a wide degree of power to the regions, culminating in 1957 legislation. Law No.1/1957 attempted to revitalize regional autonomy, but after the outbreak of regional unrests on Sumatra, Sulawesi, and in West Java, these attempts were ended. Presidential

Decision No.6/1959 reinstated the 1945 constitution, and effectively abolished the 1957 autonomy law. The policy toward centralization began when Indonesia entered into a more authoritarian period with then President Soekarno's Guided Democracy in 1959. The Law No.18/1965 eradicated some aspects of decentralization.

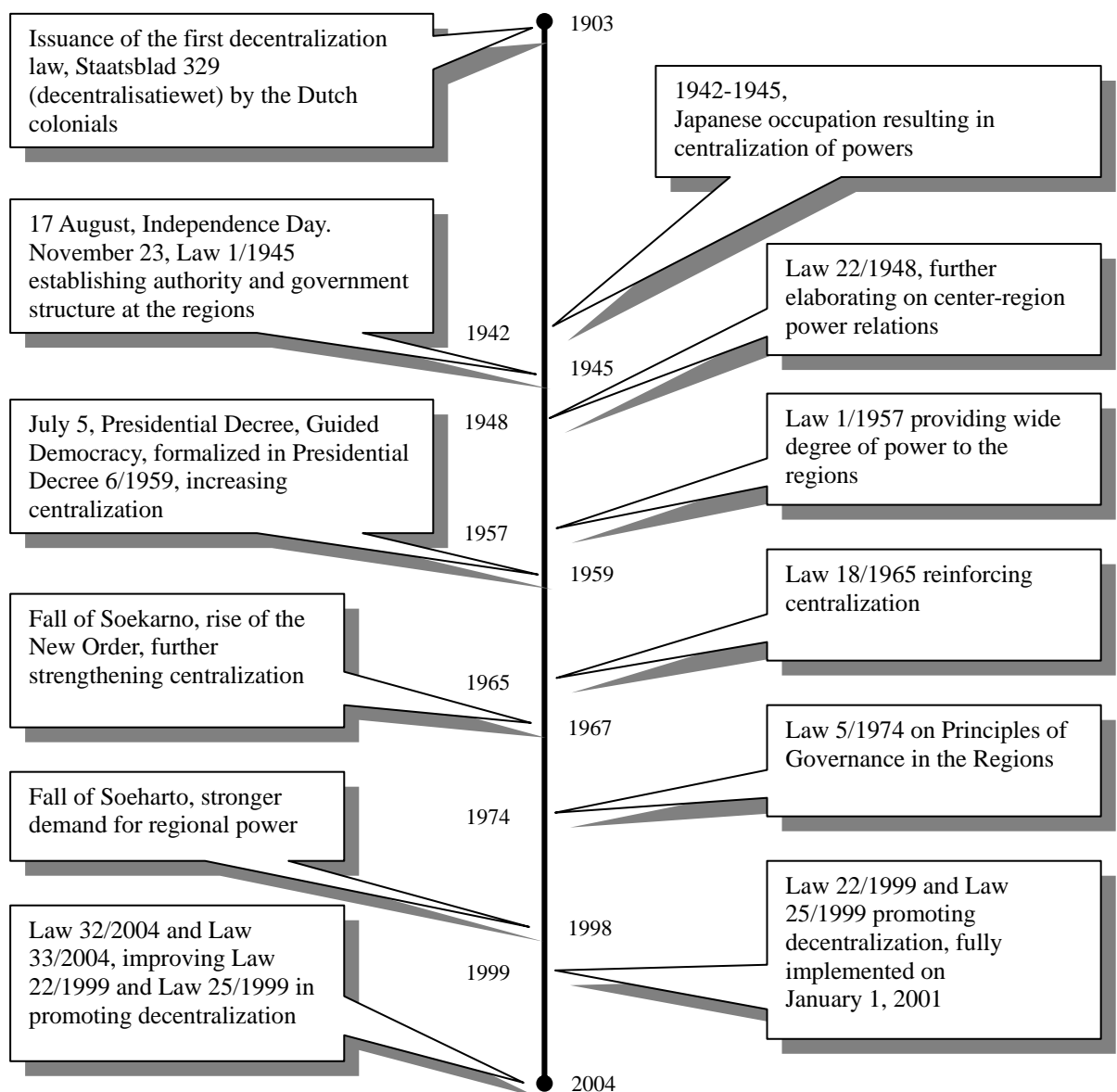
The centralization became pervasive with the Orde Baru (New Order) regime beginning in 1967. Nonetheless, Soeharto's government enacted Law No.5/1974 that conveyed the issue of regional autonomy. This law, whose implementing regulations started to dribble in only in 1992, was never fully implemented. In almost all aspects of politics and government such as democracy, fiscal balance, and public administration, the Soeharto regime instituted a rigid hierarchical power structure with central government exercising strong control over every level in the political, governmental, and societal hierarchy. The regime managed this effort through the military and the bureaucracy. During this period, the central government in Jakarta monopolized economic management and natural resources extraction in the regions. The authoritarian power structure created a deep-rooted social discontent, particularly in the regions.

The Law No.5/1974 assigned fewer functions to the regions than the current decentralization law, but the key difference lay in the process of decentralization. The regions had to prove they were ready for implementing their new functions, and the center was the judge and the jury of their readiness. An experimental implementation of the law in 26 districts finally took off in 1996, but was fraught with difficulties, not least because the center did not hand over the personnel and facilities the regions needed to perform their new tasks properly.



The experiment with Law 5/1974 was taken over by events. It was only after the fall of Soeharto on May 21, 1998 that the regions, with support from democratic voices, demanded a new framework in center-regions relations. MPR Decree XV/1998 and Laws No.22/1999 and 25/1999 are the pillars of this framework.

**Figure 2. The Milestones of Relationship between Center-Region**



Source: The Asia Foundation, 2003 (Modified)

Due to the problems emerged in the implementation, after 3 years, Yudhoyono's government revise the Laws No.22/1999 and 25/1999 by new Laws No.32/2004 and 33/2004 in order to improve and strengthen decentralization policy that has been implementing. The major change is about the political decentralization through local elections in the whole regions.

## **B. Current Decentralization**

Law No.22 and 25/1999 went into full effect in January 2001 and provided the framework for decentralizing authorities once held by central government and gave local governments new responsibilities to manage their own regions. These laws have devolved central government powers and responsibilities to local governments in all government administrative sectors except for security and defense, foreign policy, monetary and fiscal matters, justice and religious affairs.

This law is quite unusual since almost all powers and responsibilities are ceded to local governments without conditions and limitations. As a result, local governments have to reform their internal structures to accommodate the huge increase in responsibility that has been passed on from the central government. A significant part of this process includes placing a large number of central government employees under the authority of the regional governments, in order to strengthen their capacity to operate effectively and efficiently. The absence of a detailed plan of the transition process and the lack of supporting regulations to clarify the procedures and processes that need to be undertaken have hampered this sweeping devolution of responsibilities. The change in government administration must also deal with a lack

of initiative and support from government employees. These same government employees who are now carrying out the decentralization process are accustomed to being the implementers of highly centralized government policies.

Principally, the main objectives of decentralization include promoting the better delivery of government services and the raising of the level of local government accountability. Some of the necessary changes that need to be made for the transformation from a centralized autocracy to a decentralized democracy have been implemented quite quickly (for example by holding free elections and passing of laws, which transfer central government functions to the regions). Other essential changes will take much longer (for example changing the centralized mind-set of public servants and building the capacity of regions to cope with their new functions). Although decentralization also has the potential to create unrest in the short-term, the demands from the regions for greater autonomy are now simply too strong to be ignored. In the long term, decentralization has the potential to stabilize political, economic and social conditions in Indonesia.

The new policy of decentralization is outlined in Law No.32/2004 and 33/2004. These two laws are revising the Law No.22/1999 concerning Local Government and Law No.25/1999 concerning The Fiscal Balance between the Central Government and the Regions. Both these laws are based on five principles: 1) democracy, 2) community participation and empowerment, 3) equity and justice, 4) recognition of the potential and the diversity within regions and 5) the need to strengthen local legislatures.

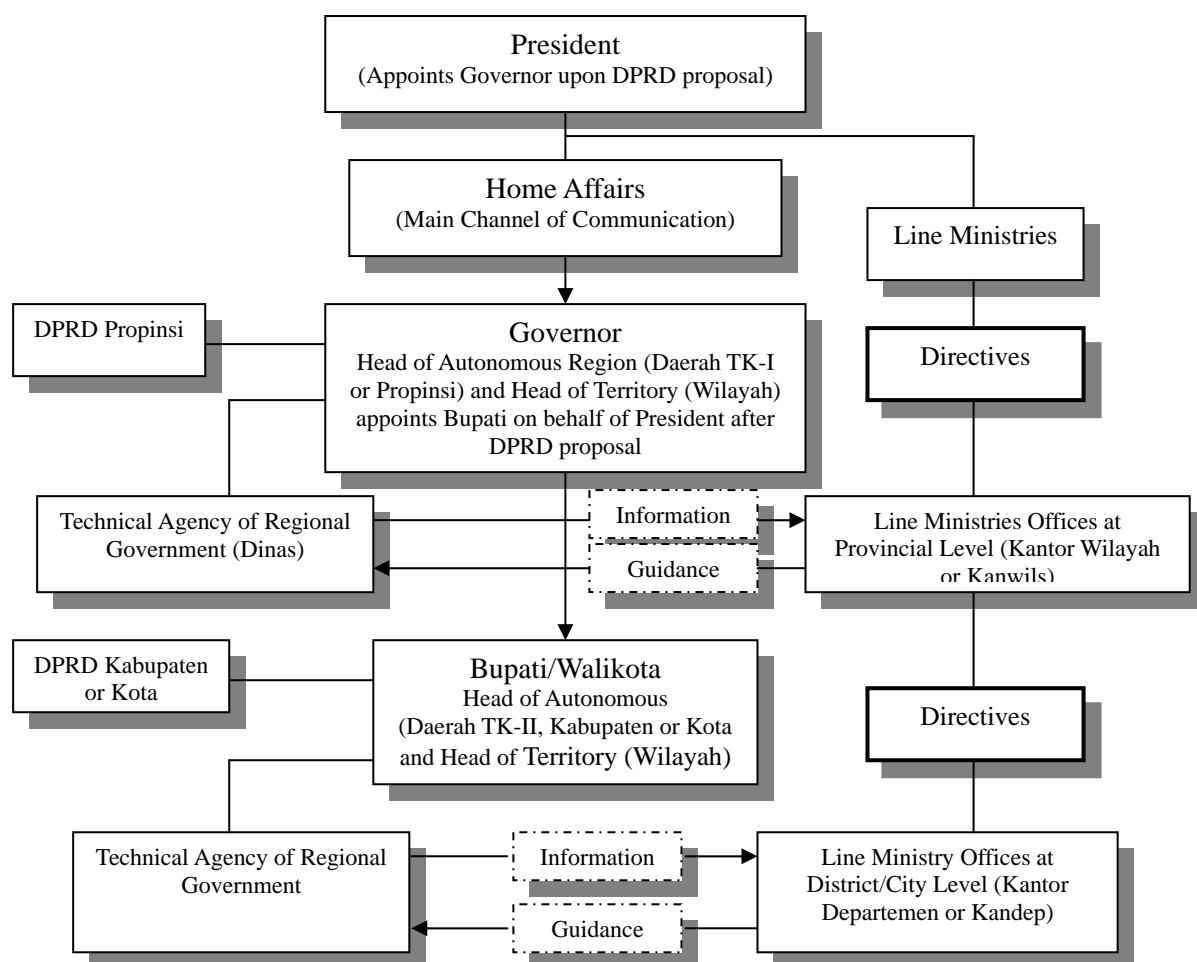
The territory of Indonesia is divided into autonomous provinces, districts (*kabupaten*) and municipalities (*kota*). Districts and municipalities are technically the same level of government. This distinction is based on whether the government administration is located in a rural area (district) or an urban area (municipality). Within districts and municipalities there are sub-districts (*kecamatan*) which are smaller administrative government units. Each sub-district is further divided into villages. Villages in rural areas are called *desa*, while in an urban areas there are referred to as *kelurahan*.

Decentralization policy transfers functions, personnel and assets from the central government to the provincial, as well as the district and the municipal governments. This means that additional powers and responsibilities are being devolved to district and municipal governments, establishing a far more decentralized system compared to the deconcentrated and co-administrated systems of the past. Deconcentrated is the delegation of authority by the central government to the governor of a province and/or a central government official in the province, meanwhile co-administration is when higher levels of government direct lower levels to undertake tasks and functions and the higher level of government provides the costs, means, infrastructure and human resources to carry out the tasks. The lower level of government is obliged to report to the higher level of government regarding the execution of these task or function.

The *bupati* (district head) and *walikota* (municipal head) as the head of the autonomous local government will be directly responsible to the local assembly (*Dewan Perwakilan Rakyat Daerah*, DPRD), while the deconcentrated agencies for

devolved functions will be abolished and the civil servants of these agencies will be placed under the authority of the regional governments.

**Figure 3. Framework of Government before Law 22/1999**

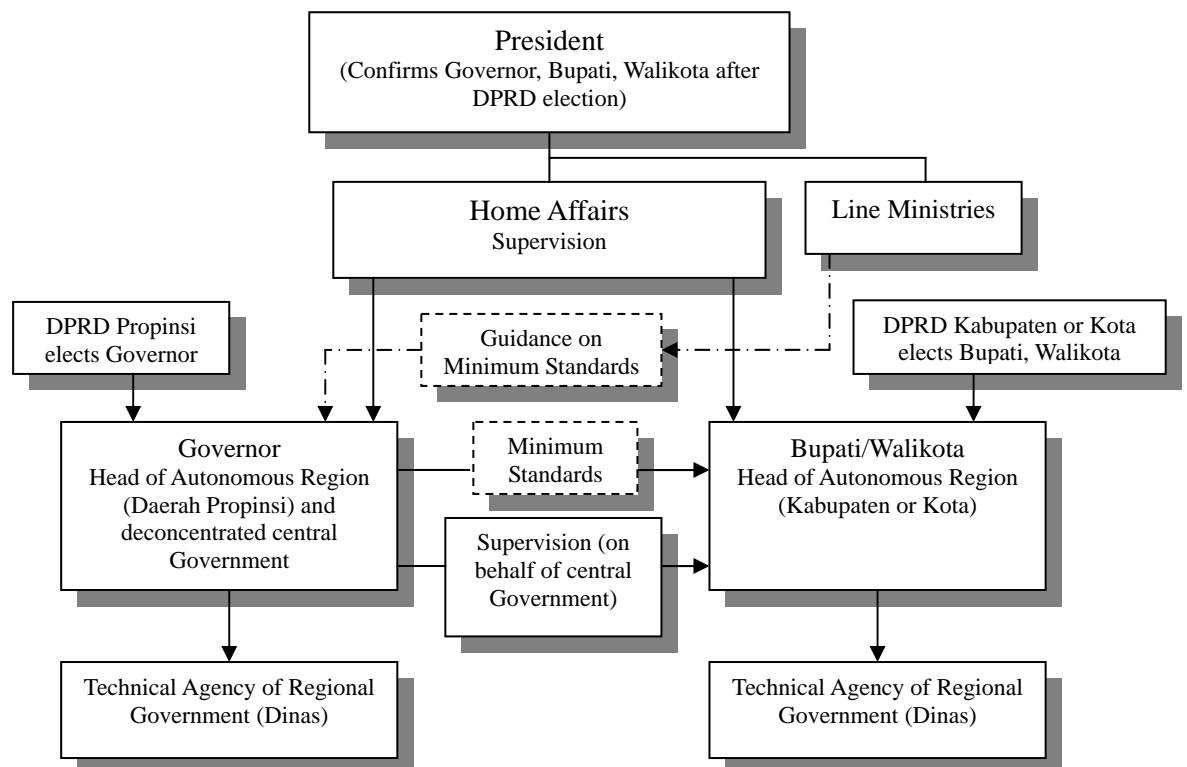


*Source:* World Bank, 2003

Law No.22/1999 delegates all government administrative sectors from central government functions to regional governments, with the exception of security and defense, foreign policy, monetary and fiscal matters, justice, and religious affairs. Provinces have a dual status as autonomous regions themselves and also as representatives of the central government in regions. As autonomous regions,

provinces have the authority to manage certain matters that cross inter-district and inter municipal administration and authorities that are not (or not yet) implemented by the districts and municipalities. As the representatives of the central government, the provinces carry out certain administration tasks delegated by the President to the Governors. The power of districts and municipalities cover all sectors of administrative authority other than those of the central government and the provinces, including public works, health, education and culture, agriculture, transportation, industry and trade, investment, environment, land affairs, cooperatives, and manpower.

**Figure 4. Framework of Government after Law 22/1999**



*Source:* World Bank, 2003

However, implementation of Law 22/1999 went too far in some regions. Conflict of interests between central and local governments still take in place. The law assigns authorities (*kewenangan*) rather than functions to levels of government. All authorities of government except those reserved for the center and the now 33 provinces are assigned to the 440 local governments. Government Regulation No.25/2000 further specifies the authorities of the central of provincial governments. The current division of responsibilities is as follows:

- Central government remains responsible for national defense, international relations, justice, security, religion, and monetary and fiscal policies. In these functions the center is allowed to maintain its organizations in the regions. The central government also has several policy functions for which it can no longer maintain an organization in the regions, including national planning, intergovernmental fiscal policies, state administration, human resource development, natural resource utilization conservation and national standardization.
- The province as an autonomous region has a relatively minor role. It coordinates among the local governments, and performs functions that affect more than one local government. It also can, at the request of local governments, take on tasks that local government cannot yet perform. Law 22 explicitly states that there is no hierarchical relationship between the province as an autonomous region and the regencies and cities. However, the Governor (not the province) continues to perform deconcentrated central tasks, and is the central government representative in the regions. As such, he maintains supervisory powers over local governments. Implementing regulations further specify the remaining roles of the central and provincial governments, including the setting of standards for service delivery.

- The local governments perform all functions except those assigned to the center and the province. The local governments have obligatory “sectors”, including health, education, public works, environment, communications, agriculture, industry and trade, capita investment, land, cooperatives, and manpower and infrastructure services. While local government can hand back to the province functions that they cannot perform, this is not permitted in the case of obligatory functions.

One important issue that unclear is meant by the term ‘authority’ in Government Regulation No. 25, 2000 on “The Government Authority and Provincial Authority as the Autonomous Government”. Presently this key government regulation reads more like a central government instruction about the duties and responsibilities of the regions rather than a document that grants authority over new functions. According to this regulation, if districts and municipalities lack the capacity to carry out certain functions, their responsibilities are to be surrendered to the provincial government. Although Government Regulation No. 25, 2000 was intended to clarify the process of surrendering functions to the provincial government, many uncertainties regarding this process still remain.

There is also a continuing debate over whether power should be concentrated at the provincial level or at the district and municipal level. Many provincial officials doubt the capacity of district and municipal governments to implement decentralization. They give the impression that they are still hoping that decentralization will be implemented at the provincial level and not directly at the district and municipal level. Of major concern is that there will not be sufficient funds

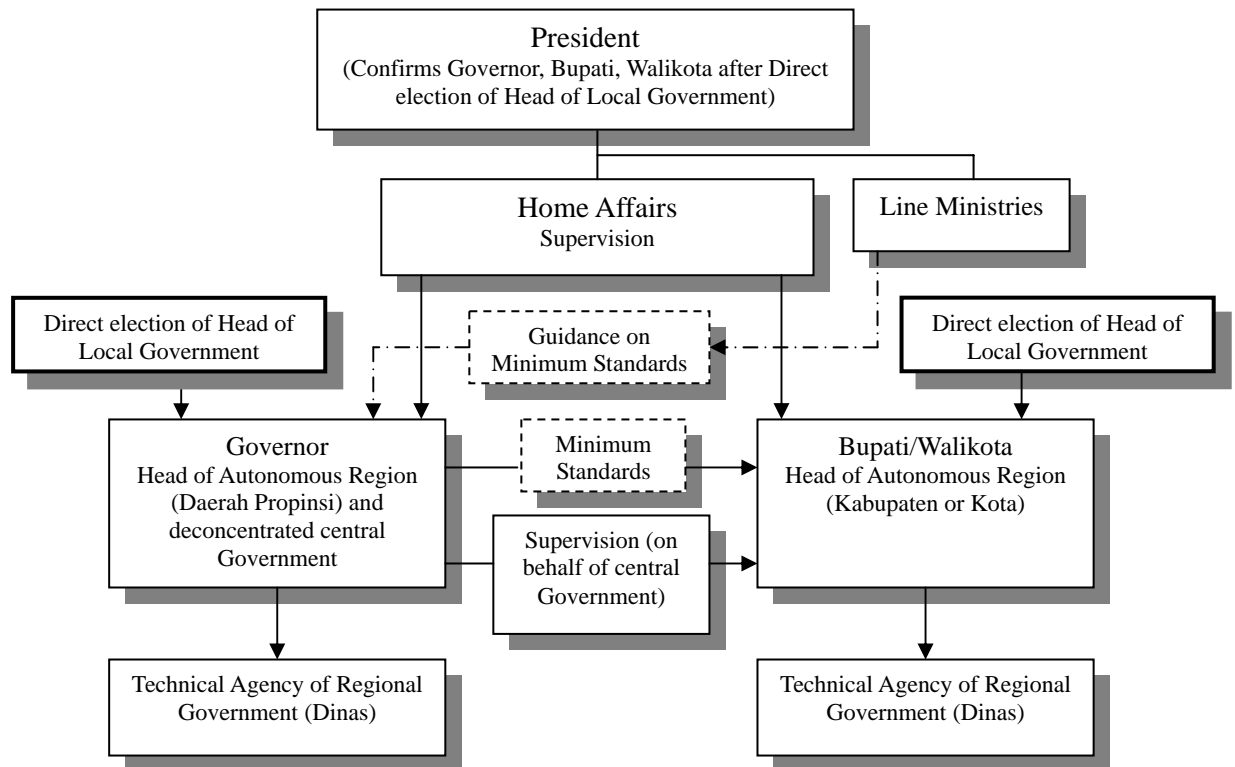


to finance the more than 700 tasks and functions for which district and municipal governments are now responsible. Therefore, many provincial level officials expect that within about a year many district and municipal governments will surrender some of their responsibilities and functions to the province.

Since the process of implementation of the new decentralization laws began, the position of the province in relation to the district and the municipality has become uncertain. The district and municipal governments now have a direct reciprocal relationship with the central government. According to Law No.22/1999 each autonomous region is independent and there is no longer any hierarchical relationship between the province and the district and municipal government. Therefore, in the course of carrying out the tasks of government, the district and municipality are tending to position themselves as sub-ordinates of the central government, rather than the province. Some members of district and municipal elected representative assemblies (*Dewan Perwakilan Rakyat Daerah* – DPRD) even doubt the authority of the provincial assembly in their region.

Several years after Law 22/1999 had been implemented; central government developed it with the new Law No.32/2004. Fundamental distinctions with the previous law are the direct election of the head of local government and bring power to provincial government as central government representative in regions. The aim of this policy is to improve accountability of the local government. However, there is no major change in some areas for example in service delivery and authority devolution.

**Figure 5. Framework of Government based on Law 32/2004**



*Source:* World Bank, 2003 (Modified)

## 1. The Forming of New Regions

Decentralization provided local governments not only the freedom to determine their own path to development, but also the opportunity to reconfigure their own regions in the way they believe is best for carrying out their responsibilities and meeting the needs of the local community. Article 6, Chapter II of Law 32/2004 specifically provides that “regions incapable of implementing autonomy can be eliminated or merged with another region; and a region can be expanded to more than one region.”

Decentralization has enabled local governments to expand their numbers, to merge, or to change the status of their respective regions. Formation of numerous

regions, resulting from sub-divisions of large geographical areas, has occurred at both provincial and local levels. The number of local governments increased from 294 in early 2001 to 440 by January 2004, consisting of 349 kabupaten and 91 kota. In contrast, there have been almost no mergers (consolidations) at the provincial or local level.

Status change involves the restoration of local social structures and the revival of cultural or historical titles for community areas, giving them legitimacy in the decentralization law. These changes reverse New Order policy of uniformity of local government structure.

Generally, there were three groups involved in forming new regions decisions: local government, elite members of society, and the DPRD. However, in some regions, the central government and the DPR were also involved. In some areas, it took two years for the DPR and central government to approve establishment of new regions.

Establishment of new regions did not automatically result in improvements in public services or infrastructure. This is because the process was not followed by more or better qualified personnel. Also, even when plans were good, there were insufficient increases in allocations from the routine governmental budget (APBD).

In general, public involvement in the new region formation processes is intense, in terms of both support and rejection. Citizens both developed initiatives and responded to initiatives submitted by local society elites and by local government.

Despite high stakeholder involvement in the process of changing the status of a region, local society was generally not aware of Government Regulation No.129/2000 on organizing regional expansions. As a result, views differ on future regional expansion processes. The local political elites would prefer that regional expansion be easier, while local society would prefer stricter requirements for expansion.

## **2. Direct Election of Heads of Local Government**

Under the Law 22/1999 there is a disconnection between the political system and regional autonomy. The political system, in the framework of general election and political party laws, is perceived as a major issue affecting decentralization. The roles being performed by the executive and the political party are not very clear. Questions also arise as to whether political parties are performing their roles as representatives. To be truly representative, they should begin to clarify who their constituents are. Given the absence of well-understood principles that govern roles and responsibilities, some observe that the dynamic between and among the executive, legislative bodies, and the political parties is one of collusion to enrich themselves.

The decision making process is still dominated by elites who protect only their personal interests. Budgeting remains an area where unclear rules increase the risk of questions about the process. The accountability of the DPRD as an actor in legislating the budget is taken for granted. The Accountability Report would provide the objective basis for assessing performance and for instances where the DPRD ousts a bupati or walikota. If the bupati/walikota and vice bupati/walikota were elected

directly, they would be more accountable to the people.

Hence the central government revised the Law 22/1999 and enacted the Law 32/2004 that the basic distinction between both decentralization laws is the direct election of heads of local government. In some sense direct presidential election impacts on local political processes, since the assumption is that if the president is directly elected at the national level, then it is logical to provide for direct election of the local chief executive as well. Direct election of local chief executives will enhance democracy at the local level.

### **C. Government Structure after Decentralization**

One aim of the policy of decentralization and regional autonomy is to bring the governments closer to their constituents so that government services can be delivered more effectively and efficiently.

Decentralization is focused at the district and municipality levels. This has always been the third tier of government below the central and the provincial levels. This is based on the assumption that district and municipal governments have a better understanding of the needs and aspirations of their communities than the central government. Although this is considerable potential for district and municipal governments to be more responsive to community aspirations, before that can occur political parties and civil society groups in the regions need to be strengthened to ensure that the processes of good government can be properly established. Some observers have suggested that decentralization should have been implemented at the

provincial level since, it is argued, provinces have greater capacity to handle all these expanded responsibilities than the districts and the municipalities. However, it is widely accepted that the central government felt that it was politically undesirable to build strong, self-governing provinces. The reason behind this is that these may have become the forms for stronger regional disintegration, especially in areas like Aceh and West Irian where independence movements are already posing a challenge to the central government.

Although in decentralization era, the government services in many regions are generally still being carried out by two kinds of government agencies: the “autonomous agencies” (*instansi otonom*) and “vertical agencies” (*instansi vertikal*). The term *instansi otonom* is applied to all those government offices that were previously under the administrative authority of regional government (province, district or municipality) and which were funded from the Regional Budget (*Anggaran Pendapatan dan Belanja Daerah*, APBD), such as implementation offices (*dinas*), boards, regional secretariats (*Sekretariat Daerah*, Setda), technical units (*Unit Pelaksana Teknis*, UPT). The term *instansi vertikal* is applied to those government offices that were previously under the administrative authority of the central government and which were funded from the central government’s State Budget (*Anggaran Pendapatan dan Belanja Negara*, APBN), which operated within a particular province, district or municipality. These included the provincial offices of the central government (*Kantor Wilayah*—Kanwil), district or municipal offices of the central government (*Kantor Departemen*—Kandep), and technical units of the central government.

Before decentralization, the “vertical agencies” were the instruments of the central government in the regions carrying out highly centralized government policies. Now many of their tasks and powers have been devolved to the regional governments. According to Article 12, section (1) of Law No.32/2004, the process of devolving these powers must be accompanied by the transfer of funding, infrastructure and human resources.

**Table 1. Structure of Government Work Units in the Regions under Law No.5/1974**

<b>Geographic Location</b>	<b>Central Government</b>	<b>Provincial Government</b>	<b>District and Municipal Government</b>
Province	Kanwil Board (Badan) Office (Kantor) Technical Unit (UPT)	Local Secretariat Provincial Parliament Implementing Unit (Dinas) Board (Badan) Office (Kantor) Technical Unit (UPT)	-
District and Municipality	Kandep Board (Badan) Office (Kantor) Technical Unit (UPT)	Branch Office (Cabang Dinas)	Regional Secretariat District Parliament Implementing Unit (Dinas) Office of the Bupati Assistance Board (Badan) Office (Kantor) Technical Unit (UPT)
Sub-district (Kecamatan)	Education Supervisor	-	Branch Office (Cabang Dinas) Technical Unit (UPT)

*Source:* SMERU, 2001

Therefore, restructuring the institutional framework of local government—the organizational hierarchy of government departments—was one of the essential steps undertaken to prepare for the implementation of decentralization. In total, 239 provincial-level offices of the central government (*kanwil*), 3,933 district-level offices of the central government (*kandep*), and 16,180 technical units (UPT) of the central government have been handed over to the provinces, districts, and municipalities. The

amalgamation of some offices in the central government hierarchy has resulted in the formation of both technical offices and other autonomous agencies.

**Table 2. Structure of Government Work Units in the Regions under Law No.22/1999**

<b>Geographic Location</b>	<b>Central Government</b>	<b>Provincial Government</b>	<b>District and Municipal Government</b>
Province	Kanwil Board (Badan) (for certain administrative sectors)	Local Secretariat Parliament Secretariat Implementing Unit (Dinas) Board (Badan) Office (Kantor) Technical Unit (UPT)	-
District and Municipality	-	-	Regional Secretariat Parliament Secretariat Implementing Unit (Dinas) Board (Badan) Office (Kantor) Technical Unit (UPT)
Sub-district (Kecamatan)	-	-	Branch Office (Cabang Dinas) Technical Unit (UPT)

Note: The structure of government has no difference under Law 32/2004

Source: SMERU, 2001

In order to become more effective, the regional governments have tried to downsize the government structure as efficiently as possible in accordance with the principle of “rich in function, poor in structure”. In theory, this requires a significant reduction in the present number of public servants. But regional governments have always tended to avoid the difficulties caused by retrenching civil servants. As a result, many district and municipal governments have had to maintain unnecessarily large administrative structures. The provincial governments have also tended to remain large, even though their tasks and responsibilities have been substantially reduced.

Despite efforts by local governments to rationalize the structure of the



government, there remain more employees than there are public service positions. Besides this structural problem, there is a bias amongst regional government officials to fill important positions with *putra daerah*, meaning literally “sons of the region”. This refers to the movement to promote the interests of those who come from a particular area or ethnic group over those who are considered to be outsiders. Regional government officials admit that *putra daerah* demands exist. There is an expectation that more attention will now be paid to the interests of local people. This issue is a reflection of the decreasing level of confidence in the central government, which for over three decades treated the regions as an “instrument” to be utilized for its own interests. As a result, many people in the regions believe that they have been constrained for too long by the central government, and consequently are now aspiring to become “the masters of their own region.”

District and municipal governments have tended to exclude regionally-based central government officials when drafting the structure of government bodies. This phenomenon is causing anxiety amongst the existing civil service staff in central government offices located in the regions. A lack of cooperation and inclusion of staff from central government offices by the district and municipal governments raises the possibility of poor levels of cooperation once offices have been merged.

Reorganization also reflects the new authorities of regional governments. The new structures are being reviewed and improved. A number of local governments are already reviewing and evaluating the performance of their new structures. Many of these evaluations reveal that the structures need improvement, and several regions are already designing improvements. New administrative units at the kecamatan and

kelurahan levels are being created in several regions to provide more access points for public service to citizens. Even though structures are simplified, some new offices are being created as deemed necessary. This could involve dividing certain local offices (i.e. Education and Cultural Office) into two separate offices, or establishing the election committee (Rural Representative Board) at the village level.

Moreover, with the delegation of several authorities from the municipal government to the village level, there was expansion of kecamatan at villages, or division of kecamatans within town areas. The objective was better administration. These newfound authorities have incorporated the use of village nomenclature according to original traditions such as the change from “kelurahan” to “kampung” in some cases, or the establishment of a local regulation concerning LPM (Society Empowering Institution) as a replacement of LKMD (Defense Institution of Village Society). These changes are done through legislation. Generally, restructuring and the growing consciousness about distinguishing the boundaries and functions of one office from another resulted in a “differentiation” in the people’s understanding that the local parliament has responsibilities that are different from those of the executive branch of the local government.

Government Regulation 84/2000 provides for local governments to design and implement organizational changes that suit their needs and functions. Reorganization is linked to efforts to improve the quality of local government performance. Despite the difficulties, local governments try to cope with the situation. Setting up an integrated working group to review the region’s readiness for implementing decentralization indicates local government’s awareness of the need to respond to the

demands of decentralization. Similar to the examples already cited, quality improvement efforts also include the merger of administrative/licensing units, or the establishment of a unit specifically tasked to improve the quality of services. Rationalizing the roles of dinas and sub-dinas and setting dinas performance standards are other indications of the desire to improve performance.

One of the major stumbling blocks to local government reorganization is the insufficient number of qualified personnel, despite the influx of devolved personnel from central government. One result is that some civil servants lose their structural positions or do not get appointed to new positions. This is not to say, however, that the career system is always entirely based on competency, given the absence of standards for evaluating the performance of the organization or its staff. Moreover, the incentive system remains unsatisfactory to many. People perceive that the reorganization is influenced by local political and business interests. There is less priority on improving the personnel cadre than on politicking. The DPRD is deemed to lack transparency in its formulation of local regulations, and KKN (corruption, collusion, and nepotism) continues to exist.

Following the devolution of functions and the transfer of large numbers of government personnel from the central government, the number of dinas (local departments) generally decreased as a result of mergers of units, but the number of new badan (agencies) and kantor (offices) increased. The rationale for establishing these badan and kantor is to improve the capacity of local government and to strengthen coordination among government institutions. Local governments have merged offices to restructure the bureaucracy, while creating new ones to ensure that

all personnel are assigned to an office. This transition has pushed governments to rationalize the structure so that the units reflect decisions on how to carry out new local government functions. Some regions have created the badan of Research and Development Agency that focuses on providing training and education. Another badan, created as a result of restructuring from previous institutions, is the National Unity and Community Protection Agency, which is a regional supervisory agency. Some former component units were upgraded to badan status, like the Regional Financial Agency, formerly under a regional personnel agency. New kantor include the Electronic Data Processing Office, the Regional Archive Office, and the Information and Communication Office.

Concern for women's empowerment is reflected in some restructuring initiatives. Some local governments have dedicated sub-agencies or offices for women's empowerment. In regions without a dedicated unit, other structures handle women's concerns, such as the Social Affair Dinas, Social Affairs and Labor Office, or Social Affairs Section of the Regional Secretariat.

Unfortunately in some regions, restructuring has resulted in functional overlap or duplication. There are questions about the rationale for creating new offices. There is a perception that some of the new offices are created not to improve efficiency, but as a strategy to accommodate local officials who should have structural positions but lack the relevant skills for these positions.

In addition there is lack of clear job descriptions and qualifications for new positions. This creates a loophole for local favoritism and non-transparency in

appointment of officials, and questions are often raised about how positions are filled. Because procedures are unclear, appointments are perceived to be political and not based on merit and qualifications.

## **V. EVALUATION ON IMPLEMENTATION OF DECENTRALIZATION**

Based on the experience of decentralization according to the Law 22/1999 until the present (Law 32/2004), we will explore the facts, problems and impacts derived from administrative empowerment, fiscal empowerment, and monitoring system on the local government by the central government.

### **A. Administrative Empowerment**

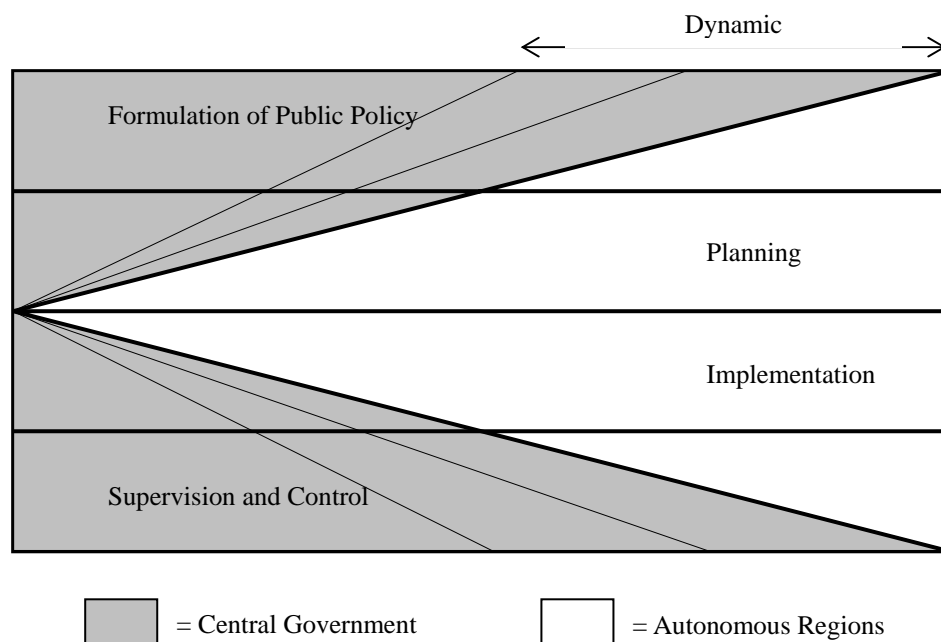
Administrative empowerment is transfer of duties from central to local government in order to improve access and more responsive service. After the decentralization, we can see there are gains in service quality and quantity but not in every district or municipality. Since the public service delivery is now directly in the hands of local government, citizens have found it easier to express concerns about the quality of services and to demand more.

Nevertheless, the quantity and quality of service delivery continues to be uneven across regions and sectors, with improvements in some areas and deterioration in others. Generally, however, local governments have managed to maintain the level of service that the central government used to provide.

The decentralization law gives delegation of duty/authority to the regions. The process of delegation of authority gives local governments the power to conduct restructuring of certain service sectors and to stimulate greater awareness of the needs

for and benefits of effective and efficient services.

**Figure 6. Division of Authority in Implementing Government Services Between Central and Regional Governments Based on Management Principle Functions**



*Source: SMERU, 2002*

Commonly there are increasing receptivity and openness of local governments. Local government acceptance of criticism and complaints is on the rise. This results in more responsiveness to demands for accelerating change and increasing access to information on services. Such transparency will enable the local government to reduce invisible costs.

After the implementation of regional autonomy, some local governments have created a simpler bureaucracy for their public services. It has resulted a shorter string of desk and offices, rationalized work hours, and greater transparency in some regions. Simplification is especially apparent in the case of licensing services, which have become much easier and more efficient. Mostly, licensing services are now conducted

under one roof. The central government also encourages the district and municipality level government to establish One Stop Service Units for this purpose. In addition, a priority on rational division of labor has resulted in wider delegation of administrative responsibility and authority. For instance is the recognition of *kelurahan* (village) as an important player in providing public services, even taking spearhead role in sectors such as health services, and with the village repositioning itself related to the service delivery function.

There are also improvements in certain public services. Local governments are starting to pay more attention to public services. The desire to improve service delivery encourages positive competition among different service delivery units. Therefore, some services provided by local government have improved. Public services for which local government pays are typically related to health, public administration and security.

The access of information is improving. Since the implementation of the regional autonomy law, some information on public services, previously unavailable, is now accessible to the public. For instance, there is clearer information about fees and the schedule of government services, like the processing of ID cards and business licenses. This is an important step towards greater transparency by public service providers. Thus decentralization has created more barriers to acts of corruption and retribution on the part of local government officials and other personnel, particularly in cases where fees for particular services are transparent. Nonetheless, corruption, collusion, and nepotism at the local level remain.



The sense of public control of services is increasing. Decentralization has generated a significant improvement in the interaction between the people and the local government, resulting in closer relations. It has also increased the public demands for the improvement of local government services. As the society becomes more critical, it can directly evaluate the quality of services provided. This process then opens opportunities for the public to provide feedback on the performance of the bureaucracy that is responsible for providing those services. In some areas, the local legislative and bupatis are more open to people's concern over public services and are becoming more responsive to people's demands for better services. However, response to citizen complaints is not yet widespread.

There is an emerging awareness of the importance of public service standards. One indication of the growing recognition of the value of minimum service standards for local governments is the action of the Ministry of Efficient Use State Apparatus in establishing a flexible tool that serves as standard of services. Another is a governor's advice that each unit in the local government establishes a standard of services for each service delivered. Such advice was translated into a regulation requiring a minimum of six working hours a day for public office staffs.

However, problems are also emerging. One of them is system barriers. The lack of public service standards makes it very difficult for local governments to define quality services and determine whether they are providing them. This is further aggravated by the bad work ethic of some employees and the fact that there is little funding in the local government budget for public services.

There is also tension between revenue objectives and service objective. Many local governments focus on increasing their income rather than improving public services. This is exacerbated when public officials engage in corruption that channels resources away from public service. Continuing tension between revenue and service objectives will prevent the sustainability of improvements in public services.

## **1. Local Government's Duties in Providing Public Services**

Administrative empowerment also provides authority to local government to improve better services for their people in their own region. Service delivery did not break down, and in some ways expanded. Contrary to widely-shared fears, there were even indications that local governments are beginning to pay more attention to public services, and that they are committed to improving service delivery. Some local governments are developing new initiatives, including several that serve the interests of vulnerable groups such as women, children and the elderly. In this chapter we also evaluate some of services that provided by local governments after decentralization.

- **Health**

Most of health programs implemented in the regions are a continuation of those delivered prior to decentralization. One example is the *Posyandu*, a service program for maternal and childcare provided periodically in almost all villages. Coordinated by health supervisors, this program penetrates the neighborhood level because its delivery is not dependent on the presence of medical professionals whose number is usually limited, but on *posyandu* cadres such as housewives and other volunteers.

Another example is the *kartu miskin*, a card issued to the poor citizens for free health services as part of the “social safety net.” In general, local governments are trying to keep the same level of services.

Autonomy has encouraged several regions to improve health services despite limited resources. Some local governments expanded the scope of their health services by upgrading health centers to higher levels, with corresponding increases in resources.

Regional autonomy also allows local governments to adjust their services to what they see as local needs. Local governments are currently choosing to deliver some or all of the 18 health services that the central government used to provide (such as nutrition, mother and child health care, family planning, control of epidemic, basic health care, management of health centers, laboratory services, and advancement of traditional medicine, among others).

There are initiatives in several regions to establish their own minimum service standards in health. In the absence of a presidential decree, the Ministry of Health has issued Ministerial Decree 1107/2000 that outlines the indicators for health services. Some provincial governments did their part as representatives of the central government in setting and promulgating these standards, and the local governments are using them as guidelines.

Civil society is playing an increasing role in health care service delivery, either independently or in cooperation with other parties. Local governments are

exploring partnerships with civil society organizations and the private sector in enhancing the delivery of health services.

Yet problems also hinder the sustainability of health service delivery such as budget limitations, lack of medical personnel and facilities. This is a function no budget limitations and is affecting service delivery capacity. Another is limited transparency in operations. There are suspicions of corruption like misuse of funds because of the limited transparency in health operations. For instance, it is believed that some of the *kartu miskin* which allow holders to get free medicines and other services do not really get into the hands of the poor.

In several cases, the Local Agency for Health Affairs and local parliament (DPRD) members have different perceptions about performance in the health sector. There is limited understanding of maternal and child health issues among members of DPRD. This hampers the allocation of more resources in the local budget that the DPRD approves.

The intent of the decentralization policy is to increase capacity at the local government level, with the central government providing facilitation rather than direction. However, central government is providing even less training and technical assistance than it did prior to decentralization.

Local governments allocate limited resources for programs to improve human resource capacity. This is because resource allocation reflects an emphasis on physical facilities construction, such as public health centers or hospitals. Current budget

allocation provides insufficient funding for further developing, maintaining, and implementing maternal and child health programs.

The quality of health services differs from one area to another. In general, there are needs for improvement in the quality of both health workers and services. This is a consequence of insufficient numbers of medical personnel in terms of area needs, as well as poor basic facilities. The distribution of medical workers and health facilities is uneven, with especially serious consequences in remote areas.

The dominant mind set is still that maternal health and child health are women's issues, and therefore should be handled only by women. This eventually has an impact on budget allocation and program development processes, to which women continue to have limited access.

- **Education**

Regional autonomy has opened opportunities for local governments to take initiatives and be creative in improving education services. While trying to make sure that basic education is provided for the first nine years, local governments have also found creative means to provide other programs, taking into account the unique needs of each community. In the arena of formal education, some local governments are establishing schools that provide special services for excellent students.

Special programs are also emerging in non-formal education. For example, Kabupaten Deli Serdang introduced the "Society Learning Hour" program with the

leadership of the Local Agency on Educational Affairs. The program was designed to encourage children to study at least two hours a day. A monitoring team oversees program implementation. In addition Kota Salatiga set up the “Community Learning Activity Center,” a non-formal education program for those who are out of formal school. The center offers skills on entrepreneurship, specifically meant to develop capacity to market products made by the local community. The center also serves as a “trading post” for local products.

Some local governments are trying to keep education affordable. By law, public education is free in elementary and high school, but students pay for miscellaneous fees, and school fees tend to increase. In Kabupaten Kutai Kertanegara, the local government decreed that everything would be free and paid for everything from the local budget.

Local governments recognize the need for quality instruction. Some regions have provided scholarships to teachers to encourage them to develop their teaching skills. In partnership with universities, some local governments initiated a program for improving the quality of teachers through cooperative programs for S1 (undergraduate degree) and S2 (master’s degree). Local budget funding will support the degree programs.

Local governments are using incentives to attract teachers. There are many incentive schemes such as new salaried positions, holiday bonuses, uniforms, and cash subsidies. Local governments are shouldering the costs to retain current teachers and attract new ones.

Local governments have entered into cooperation with the private sector and communities to improve the quality of education services and facilities. These partnerships involve a range of participation, from advisory services and education policy formulation to specific initiatives like construction of buildings.

The existing forums for education stakeholders are being strengthened. The revitalization of local school boards, which have existed since before decentralization, and the creation of new ones in regions where they were not yet set up are positive developments. Both local governments and the private sector realize that this body can be fully maximized as a forum for education stakeholders in the era of decentralization. Almost all regions have local school board. The school board is a venue for citizens and the local government to interact on matters relating to education programs and discuss public aspirations about education. Thus, it contributes to greater transparency in government operations, which will likely improve the quality and implementation of education services.

Problems are emerging in education service delivery by local government. These include the increasing of school fees. Increases in school fees are attributed to decisions of the local school boards, which have a semi-autonomous authority to manage and conduct educational activities. It is not yet apparent if increasing school fees will translate to better quality education. Service standard for education remains unclear. The Ministry of Education has not clearly communicated its minimum standard to local governments. The local governments report awareness that central government is formulating education standards but are unaware of how to implement

them.

In general, priority programs in the education sector reflect national policies. However, each region has the right to determine the local contents of its curricula. Perceptions differ on the definition of local contents. Some local governments define it in terms of local language and local cultures. Others define it in terms of local needs. For example, teaching English can be the local content as long as this is in line with local needs.

The implementation of educational autonomy suffers from inadequate socialization, poor understanding, and a weak legal basis. The school-based management system and education boards are not yet functioning to the maximum extent or playing a significant role.

Lack of funds has always constrained local governments in improving their education services. The result is school buildings in very poor condition, as well as limited education equipment and libraries to support teaching and learning. Contrary to the spirit of regional autonomy, the central government still controls a large portion of funds for education.

The number and quality of teachers remain the main problems in education sector, particularly for natural sciences and foreign languages (English). There are discrepancies between teacher competence and subjects taught.

The distribution of teachers continues to be uneven. Some big cities have a



teacher surplus, while the opposite is true in some rural and remote areas. Compounding this problem is the preference of local governments to recruit from local ethnic groups. This reinforces the Ministry of Education's position that it should retain authority over teacher distribution.

To overcome the lack of teachers, many local governments have recruited contract teachers supported by APBD funds. These teachers are not on the regular government payroll and do not receive regular government allowance and pension benefits.

The budgetary allocation for the nine-year compulsory education program is inadequate. Although it has increased in many regions, the resulting funds have gone mainly to salaries and maintenance, rather than to educational programs. Meanwhile the sparsely populated areas remain difficult to serve. Therefore, education has become more expensive, given inadequate local government budgets and the numerous obligatory miscellaneous fees.

- **Public Works**

Local governments determine priority programs in the public works sector according to regional needs and potentials. Opinions of the Local Agency on Public Works and other local government institutions differ regarding the function of the agency as the organization in charge of implementing physical construction.

Nonetheless, public involvement ranks lowest in the public works sector,

particularly in the planning process. Efforts to involve the local society through the construction service contractors association have suggested collusion.

- **Trade and Industry**

In many districts or municipalities, one *dinas* manages trade and industry sectors as well as cooperatives (and in some places, investment). Consequently, this *dinas* has become the backbone for citizens' involvement in the public-based economy and for empowering small and medium entrepreneurships as well as small scale industries.

Local officials lack some critical technical capacities, especially to provide training or technical assistance on specific subjects such as business management, product marketing, and operating machines. Some local governments are forming partnerships with research institutions, NGOs, or the business community to make this assistance available to local businesses.

- **Agriculture**

Regional autonomy has encouraged several local governments to develop service programs in agriculture based on local needs and potentials. They are strengthening and modifying existing credit programs for farmers. To support more locally based agricultural programs, some local governments are establishing development centers to support other agricultural products.

Some local governments have developed programs specifically to support

women farmers for the first time. Regional autonomy has encouraged several regions to enter into partnerships with the private sector for mutual support in addressing agricultural issues. The objective is to increase productivity in predominantly agricultural sites.

Agricultural Field Workers (*Petugas Penyuluh Lapangan*—PPL) and farmer assistants are still considered the backbone of agricultural program implementation, particularly in representing public aspirations, improving the capability of farmers and farmer groups, and socializing programs of the Local Agency of Agriculture. Nevertheless, there is Limited technical capacity of local governments to address agricultural issues. As the regional agricultural development plans become more and more localized, there is a growing need for more specialized technical assistance, specifically in the form of the PPL. Limited financial resources are cited as a barrier to hiring more PPLs.

Problems that hampered agriculture services can be illustrate because there is no national framework for agriculture, in example a national policy or minimum standard. Agriculture is one area where local governments urgently need such a framework. To respond to their immediate problems, they need to understand the macro level policy on agriculture. The strategy of the local governments can be effective only if designed in the context of a national strategy.

Farmers associations need revitalization to institutionalize public involvement in the agricultural sector. The main problem is inconsistent public enthusiasm for attending association activities. Another problem is that some people use the

associations for their own personal interests.

In order to streamline local government structures, some areas have integrated other sectors, such as fisheries, plantations, cattle farming, and forestry into the agricultural sector. This has increased the tasks and functions of the institution operating the agricultural sector. However, these tasks and functions need different expertise and skills, which agricultural agency staffs do not have.

- **Forestry**

Numerous issues related to forestry affairs affect the formulation of priority programs by local governments. These include forest management democracy, conservation, rehabilitation, critical lands, central management, and the potential of the forests to increase regional income.

Issues related to forest management democracy have brought about a new paradigm in forestry programs, namely “Forest for Society.” This involves members of local society as the main stakeholders in each forestry activity and as the ones who benefit most from forest yield management.

There are regulations in the forestry sector that are inconsistent with Law 22/1999, causing conflicts of authority and interests. Lack of response from central government on local forestry regulations has caused legal conflicts and problems in local areas, particularly when a local regulation already issued was later determined to conflict with national regulations. Local government has demanded that the provincial

government act as a facilitator to avoid conflicts.

The main obstacles to forestry management are poor quality and insufficient numbers of technical workers in Local Agency on Forestry Affairs. Meanwhile apart from the APBD, Special Allocation Funds originating from the Reforestation Fund are the main source of financial support for the local agencies of forestry affairs in implementing their function. Local governments have complained about late disbursement and being lower than expected.

- **Environment**

Local government priority programs are generally consistent with the framework of the programs determined by the Ministry of Environment, which emphasize good environmental management and administration. However, in some areas have a more specific focus, such as management of environmental problems, including solid and liquid wastes; natural disaster management, particularly flood and landslides; and garbage disposal management.

Since decentralization, the functions of local working units managing the environmental sector have expanded to include technical implementation as well as monitoring, not only administration.

The local governments have begun to provide wider opportunities for local society participation in the environment sector, not just in planning, but also in management and monitoring.

The quality of personnel in the environmental sector remains poor. Local governments have responded with several initiatives, including supporting formal bachelor and master's level education for local government staffs, conducting training on environmental impact analysis, providing training in cooperation with higher education institutions, and using technical assistance from donors.

Other factor that becomes obstacle is limited environmental management capacity of local governments. This hampers local efforts to address environmental degradation. Horizontal inter-governmental cooperation is under-developed. Many environmental problems cut across local government boundaries and territorial jurisdictions. Capacity constraints in turn limit intergovernmental coordination. There is also lack of clear national and local government framework on the environment. Local governments need a national framework for environment to use as a guide. This framework could be in the form of a national policy or minimum standard that provides the overall direction for the environment sector. It could also serve as the basis for local environmental planning and budgeting. Local government environmental strategies can be effective only if designed in the context of a national strategy.

Funds for environmental programs are limited. Environment gets a smaller proportion of the budget than education, health, and agriculture. This suggests that local governments place a low priority on environmental management. Meanwhile, there is competing priorities between revenue generating measures and environmental conservation. Local governments see forests and other resources as sources of

revenues. Many have not paid serious attention to the environmental impact of such natural resource exploitation.

- **Tourism**

Priority programs generally include construction and development of tourism facilities and services, tourism management and tourism promotion. Nonetheless, the central and provincial governments are still dominant in formulating tourism programs and activities, since tourism often involves cross-boundary issues, such as road access, and cannot be managed by a single local government. Unfortunately, the tourism development programs and projects funded by the central or provincial government are frequently not well coordinated with those planned at the local government level. Therefore, the districts and municipalities often have to alter their planned projects or programs to suit the policies of higher government levels.

- **Transportation**

The construction of basic facilities, particularly roads and bridges, is among the main priorities for all regions, including those prioritized in marine transportation. This involves significant cooperation with the Local Agency on Public Works as the technical implementing agent.

Despite these commonalities, priority programs in the transportation sector usually reflect area-specific characteristics. In some regions, local port management remains problematic because of disagreement among central, provincial, and local

government regarding port authority.

The implementation of priority programs is still not efficient for several reasons. One is the delay of the central government in transferring Personnel, Funds, Instruments, and Documentation (*Personil, Pembiayaan, Peralatan dan Dokumentasi*—P3D). Another is that some central legal regulations impede implementation.

- **Investment**

Many local governments consider investment as one of the most significant sectors for increasing their revenue. Thus, programs like promoting the local potentials (such as natural resources, manufacturing facilities, or other investment opportunities), streamlining licensing services, and conducting entrepreneurship meetings have become the main concerns of Investment Local Agencies.

A number of local governments have initiated activities to promote their regions for domestic and international investment. In trying to raise more funds, local governments continue their efforts to attract investors, both domestic and international. Kabupatens/kotas are increasingly creative in promoting their potentials. They have produced books, leaflets, and even official websites which can be easily accessed by the public, especially investors. These materials contain information about kabupaten/kota profiles, investment opportunities, and licensing services and procedures.



Local governments have made serious efforts to provide uncomplicated licensing procedures and services. Many have established one-stop-services, making business licensing simple and quick. This increases effectiveness and efficiency as well as transparency and accountability in licensing processes, and has high potential to attract investors and business to the region. Some local governments have created venues and approaches to develop a better picture of their customers (local businesses) as well as investors' needs, and to solicit feedback.

Thus there is also emergence of inter-governmental cooperation for investment purposes. Some local governments have ventured into cooperative agreements with other regions in order to coordinate investment.

However, problems are found such as insufficient licensing authority devolved to the local governments. The central government still has the authority to issue investment licenses. While local governments are anxious to attract foreign investors, their lack of authority to issue licenses could delay investment. Control of central government for land affairs is also becoming problem for local governments. Some investments are connected to the availability of land in the regions. The fact that local governments continue to have no power over land affairs, is a constraint in attracting investors.

Local civil society members are apathetic about licensing procedures. Unless directly affected, they do not participate in the policy-making process related to licensing systems. In the mean time, some business owners tend to use middlemen to smooth and speed up the licensing process. This behavior hampers efforts to establish

transparent and effective one-stop service centers. In addition the business associations that can advocate for better licensing procedures are not fully functional and involved. Even some regions have shown their effort to improve the services, there is no mechanism for business owners to submit their complaints or demand improvements in licensing services.

- **Civil Registry**

Civil registration is a local government service. There is a national standard for the procedures and the associated forms, but local governments have some leeway in how they implement the service. Local governments have progressed toward meeting the standards, although differences in service quantity and quality continue to hamper uniformity.

Central government policies regarding civil documentation continue to be developed. There is a current parliamentary debate over a draft population and family welfare bill which touches on documentation issues. However, the debate seems to be limited to a small circle, with little involvement of local governments and communities.

Some local civil registration service officials engage in practices that are detrimental to developing better government. They view providing these services as a means to make additional income. The absence of a sufficiently transparent and accountable system permits these practices to occur. One consequence is that citizens may choose not to seek their civil registry documents, despite the knowledge of their

importance.

## 2. Transfer of Personnel from Central to Local Government

One of outcomes of the decentralization process is a massive excess of around 2.1 million central government employees who are being transferred to regional levels of government both at the provincial, as well as the district and municipal levels of administration. Around half of these government personnel are school teachers. There are also provincial level employees in many districts and municipalities who will be transferred to district and municipal governments. This transfer represents more a change in status than a physical transfer because most of these government officials are already based in the regions.

**Table 3. Public Sector Employment in Indonesia**  
(millions)

	Year of 1999 (Before Decentralization)	Year of 2001 (After Decentralization)
Public Sector	5.4	5.5
State Enterprise	1.0	1.0
General Government	4.5	4.4
Military and Police	0.5	0.5
Civil Servants*	4.1	3.9
Central	3.6	1.3
Regional	0.5	2.6
Civil servants as share of population	1.9%	1.9%
Regional civil servants as share of total civil servants	12.2%	66.7%

*\* Civilian civil servants excluding health and education workers*

*Source:* National Agency of Civil Service Administration (BKN)

The transfer of personnel from the center to the regions has already been carried out, however a number of problems are beginning to emerge. Discrepancies have been found between the number of employees counted by local governments in

their staff inventories, and the figures released by the National Agency of Civil Service Administration (BKN). In several provinces BKN has reported a higher number of employees, compared with employee data produced by local governments.

At present there are questions regarding the extent of such discrepancies, and whether the high numbers of extra officials can be explained as inadvertent mistakes. A more cynical explanation is that the recording of incorrect data was deliberate and aimed at claiming the salaries of these 'phantom' civil servants. Because the phantom civil servants have been recorded at the central government level, their salaries have been paid out based on central government data. It is unclear, however, where the money has gone because these 'phantom' employees clearly do not exist at the local level. The case of 'phantom' personnel is only one of many problems that need to be addressed by the central and local governments as they implement decentralization.

Despite the uncertain number, the local government has to manage the large number of personnel transferred from the central government. These personnel were already in the regions, but local governments are now responsible for paying their salaries. They have integrated large numbers of staff by reorganizing and restructuring agencies and units, without necessarily downsizing. They are adopting structures that are simple but rich in functions, reorganizing the local bureaucracy to increase the efficiency and effectiveness of public services and bring them closer to the people. They are beginning to seek ways to enhance personnel capability through training.

Local governments are upgrading the skills of their personnel through various types of training and support for post-graduate schooling. Local government

employees are beginning to understand that promotions will eventually be based on merit and skills. They also recognize that equipping themselves with new skills will make them more competitive in terms of professional advancement. Training and education programs have provided some benefits, but programs to improve technical skills are limited.

In general, there are no reductions in personnel, and some local governments have even made new hires. Although the General Allocation Fund (DAU) calculation was based on existing personnel, new personnel have been hired to carry out new functions.

However, the absence of guidance on down-sizing became problem to local government. The discrepancy between personnel needs and availability continues to limit the ability of local governments to recruit the staff they really need to carry out policy formulation and service delivery. Inter-are mobility of personnel is still limited, given its consequences for the local budget. Current central government guidelines limit inter-are devolution of personnel as well as the number of positions, offices, and technical bureaus. Central government has yet to provide permission and implementation guidance for sorely needed down-sizing.

Strict rules on determining the number of working units and the stringent structure of positions in the hierarchical system limit local government's ability to define and respond to actual organizational needs of personnel. This is because of inflexible rules and regulations.

Other obstacle in local civil service management is insufficient capacity in performance evaluation. Although performance evaluation instruments such as LAKIP (Performance Accountability Report of Government Institution) are widely used, they are not as useful as they might be because many personnel lack competence in applying them. The result is that the public considers it difficult to obtain accurate descriptions of local government performance. Additionally there is inadequate attention to area management. This is the result of the continuing dominance of local government personnel in local policy formulation. The last is limited funding. Since most funding is allocated for government operation and service provision, only little budget available to improve the capacities of personnel.

## **B. Fiscal Empowerment**

Fiscal empowerment means the transfer of money from central government to local governments. Fiscal empowerment will enable local governments to take the right steps for over all growth with equity. The empowerment brings government truly closer to the people. It is also aligned with increasing demand of accountability.

Law 32/2004 provided authority of local governments to manage their own finances. Also included are provisions for the separation of legislative and executive functions, which steered the DPRD to get more involved in setting the regional laws on budget as well as in establishing priorities in development plans. Moreover, the requirement that the executive prepare an Accountability Report creates expectations in all sectors that certain needs will have to be met in the budget planning. This also encouraged efforts towards efficiency in the executive expenses budget as well as

more transparent executive responses to public demands.

Before the implementation of decentralization, there were two types of grants and subsidies allocated by the central government. The first allocation was used for routine expenditure, such as local government civil service salaries as well as for bureaucratic expenditure at the kabupaten/kota levels of government. The second type of allocation covered funds that are directed for the purpose of investment or government development expenditure.

For routine expenditure purposes, the budgets were transferred through subsidies from the central government. This subsidy was the main source of direct income for the local governments. Table 4 provides the structure of local Government revenues before decentralization in several kotas/kabupatens, where for the fiscal year 1999/2000 this contributed about 60% of total local governments' revenues.

For investment or development expenditure purposes, the budgets were transferred in two different types of subsidies. The first type was in the form of grants that were allocated for specific purposes designed by the central government, such as to build schools and health facilities at the kabupaten level. The second type of allocation was in the forms of block grants that could be used according to the needs of kabupaten/kota without any intervention from the central government. However, the amount of this type of subsidy was much less than the former. Total fund for investment purposes is only contributing approximately 20% of kabupaten/kota revenue. In addition to these two kinds of fund transferred, the central government also provided local government with a share of tax and non-tax revenues that

contributed less than 10% of kabupaten/kota total revenues. The use of these funds was fully controlled by the local government. The remaining 10% of kabupaten/kota income was derived from local revenues (PAD) and other insignificant sources.

**Table 4. Structure of Local Government Revenues before Decentralization (FY 1999/2000 in percentage share)**

<i>Kabupaten / Kota</i>	Tax & non-tax Revenue sharing	Routine Budget Subsidy	Development Funds	Local Source of Revenues	Others	Total Revenues (billion Rupiahs)
1. Banjarmasin*	11.90	52.47	17.82	17.24	0.57	87.3
2. Bolmong	8.71	66.14	22.00	3.16	0.00	72.3
3. Gorontalo	10.10	66.01	21.33	2.55	0.00	94.2
4. Karo	9.75	65.25	15.59	9.41	0.00	75.4
5. Kudus	6.92	61.77	15.77	15.33	0.41	78.7
6. West Lombok	6.61	46.77	32.09	14.48	0.05	101.1
7. Magetan	10.09	70.27	13.71	5.76	0.17	97.3
8. Minahasa	10.96	75.20	11.01	2.83	0.00	139.8
9. Sukabumi*	7.31	51.88	24.10	14.59	2.12	56.9
10. Sanggau	7.34	59.79	30.36	2.03	0.47	86.0
11. Solok	6.66	56.54	33.46	2.96	0.39	90.5
12. Simalungun	12.63	65.14	18.77	3.46	0.00	144.8

Note: \*) Kota

Source: SMERU, 2001

In the past, the central government transferred money to the regions not only through the local government administration, but also through its “vertical” offices operating in the regions. The *deconcentrated* offices of the central government were financed through the central budget. This funding was commonly known as DIK<sup>5</sup> for recurrent spending and DIP<sup>6</sup> for development spending. The amount was much higher than the total revenues received by local government. Table 5 provides average figures of total central governments budgets allocated to all regions during the 1990s. In terms of percentage of GDP, the total funds allocated to the DIP was 5.2% of GDP.

<sup>5</sup> DIK is *Daftar Isian Kegiatan*. The budget for routine spending.

<sup>6</sup> DIP is *Daftar Isian Proyek*. Project list that every financial year financed by central government through technical department. Central office of technical department allocates further to its office operating in *kabupaten* and *kota* level.



This was considerably higher than the total grants and subsidies allocated for routine and development expenditures which were only 3.5% of GDP.

**Table 5. Transferred Funds to Kabupaten/Kota Level:  
Expressed as a Percentage of GDP (Average Figures During the 1990s)**

Items	Percentage of GDP:
A. Transferred to local government:	3.5%
- For routine budget	(2.2%)
- For development budget	(1.3%)
B. Transferred to central government vertical institutions operating at the district level	5.2%
C. Total (A+B)	8.7%

*Source:* SMERU, 2001

These budgets, however, are no longer transferred under the decentralized system. As a result of the decentralization policy, all “vertical” government offices at the kabupaten level are automatically becoming part of the local government administration. They have been included in the new organizational structure of regional governments at the kabupaten/kota level. The budgetary implications of this new positioning these former “vertical” agencies is that both routine and development budgets will be managed by local government. In this case, the local government will use the new block grants for this purpose.

After decentralization the local governments have autonomy in finance management. Local governments and regions have more in fund management. According to the Law 33/2004, the allocated funds from the central government are block grants to be used by the local government according to their own priorities. This is contrary to the mechanism applied by the central government prior to the implementation of regional autonomy, where the local government only carried out

those programs designed by the central government.

In the new system, central-regional transfers remain the dominant means of financing. Even there is increasing use of contingency tax (PAD, local own revenue) for direct development—by expanding the scope of their taxes and user charges to increase local own revenue—local governments are still largely dependent on fund transfers from the central government.

Law 33/2004 designates four sources of local government revenues: (1) locally generated revenues from taxes and user charges (PAD); (2) the Equalization Fund; (3) regional loans; and (4) other income. The Equalization Fund is made up of (1) the General Allocation Fund (DAU), (2) the Special Allocation Fund (DAK), and (3) revenue sharing from land and building taxes, fees from acquisition of land and buildings, and share in natural resources such as forests, mining, fisheries, oil, and gas.

**Table 6. DAU Dominates**  
(*Revenues of the Regions FY2001-2003, Rp. trillion and percent*)

	FY2001 (budget)	FY2001 (outcome)	FY2002 (budget)	FY2003 (submitted)	Percent of total (2003)
DAU	60.5	60.5	69.1	75.4	64.1
Contingency/Balancing Funds	6.0	3.0	2.0	8.1	4.1
Shared Revenues	20.3	21.2	24.6	25.9	22.4
Special Autonomy Grants	0.0	0.0	1.3	1.5	0.9
Special Allocation Fund (DAK)	0.9	0.7	0.8	2.3	1.2
Total Regional Transfers	87.7	85.4	97.8	113.2	92.6
Regional Own Revenues (PAD)	7.0	7.0	7.6	9.0	7.4
Total Revenues	94.6	92.4	105.4	122.2	100

Source: World Bank, 2003

The bulk of regional government spending is financed by transfers from the center as indicated in Table 6. Over 90 percent of regional revenues comes from the Equalization Fund.

The General Allocation Fund (DAU) is the foundation of the fiscal empowerment from central to local government. The grant constitutes some 65% of regional revenues, and a little over 70% of all central transfers to regions. The pool of money available to the DAU is by law a minimum of 25% of central government revenues after tax sharing. The 25% is a minimum share for the regions, but it is also the actual share approved by Parliament. Local governments receive 90% of the DAU pool, reflecting their importance under Law 32/2004, while the provinces receive 10%. Neither the 25% share of total revenues, nor the division of the DAU over provinces and local governments was based on a thorough analysis of the expenditure needs of the regions. When the decentralization law was passed, the expenditure assignments were not yet known, nor was there sufficient information on how much was actually spent on functions. The regulations suggest that the 25% is the share of actual revenue after revenue sharing, but until now 25% of the budgeted amount was actually distributed. In the Table 7, we can see the DAU block grant and transferred funds before decentralization in several kotas/kabupatens, that generally, all kotas/kabupatens received a much higher amount of DAU compared to the total funds received in FY1999/2000, the last year before the implementation of decentralization.

**Table 7. DAU Block Grant and Transferred Funds Before Decentralization  
(in billion rupiah)**

Kota / Kabupaten	DAU Block Grant	Transferred funds in FY 1999/2000	Increase (%)
1. Banjarmasin*	127.9	72.3	76.9
2. Bolmong	140.8	70.0	101.1
3. Gorontalo	148.6	91.8	61.9
4. Tanah Karo	92.5	68.3	35.4
5. Kudus	175.6	66.8	162.9
6. West Lombok	165.1	86.4	91.1
7. Magetan	208.9	91.7	127.8
8. Minahasa	260.4	135.8	91.8
9. Sukabumi*	81.3	48.6	67.3
10. Sanggau	192.4	84.3	128.2
11. Solok	150.8	87.9	71.6
12. Simalungun	260.3	139.8	86.2

Note: \*) Kota

Source: SMERU, 2001

The DAU allocation to individual provinces and local governments is in principle determined by formula. There are two formulae—one for the provinces and one for the local governments—but they are similar enough to discuss as if they are one. The formulae must take into account the regions’ needs and “economic potential,” which was interpreted to mean “expenditure needs” and “revenue capacity,” which according to the explanation of Law 33/2004 should be based on objective factors of needs and capacity. To base the grant allocation on such objective criteria is an attractive feature: it avoids “gap filling” between actual spending and actual revenues, and encourage regions to be cost effective and raise own revenues. Nonetheless, the transition to the new fiscal system and lack of data necessitated several transition elements in the DAU distribution in addition to the formula, including a “base amount” and a contingency allocation. Thus a region’s share of the DAU consists of three parts that are formula amount, base amount, and contingency.

The share in the DAU pool for a region depends in principle on the “fiscal

gap,” the difference between its fiscal needs and its fiscal capacity. The choice of revenue capacity and expenditure needs rather than actual revenues and expenditure is desirable, as it gives the regions incentives to raise their own revenues, and save on spending. As indicators for expenditure need the formula includes: (i) population; (ii) poverty rate; (iii) land area; and (iv) the construction price index as an indicator of “geographical circumstances.” The formula must include these variables, as they are mentioned in the explanation of Law 33/2004. Fiscal capacity is defined as the sum of own revenues (PAD) and shared revenues. The formula has been changing from year to year. In the 2001 formula each of the variables was included with equal weight, whereas in the following years formula, population and area both received higher weights than the others.

At the end of year 2001 the government realized that the distribution of the DAU according to “objective factors” could cause a major mismatch between devolved expenditure responsibilities and revenues. Devolved expenditures consisted largely of wages for civil servants in former central government offices, and some operations and maintenance spending. The distribution of these expenditures over the country was very different than the distribution of expenditure needs according to the new DAU formula. Because it was impossible for the regions to adjust their spending overnight, using only the formula risked major underfunding for numerous regions, and excess funding for others. To avoid this, the central government decided to hold the regions harmless compared to the year 2000, and introduced the “base amount” for that purpose. While well intended, the interpretation of the hold harmless clause was problematic. Rather than an amount below which no region could fall, it became a minimum grant, on top of which an amount according to the formula was allocated.

Consequently, the base amount took almost 80% of the total DAU pool. However the amount was reduced and turned into a minimum amount per region.

In the mean time, the clause of “hold harmless” has caused misinterpretation in following years. Parliament objected against the proposed distribution of the DAU for next years, because some of the richer regions stood to lose compared to the 2001 distribution. It decided that no region could receive less DAU than it did the year before. In principle this was a reasonable decision even though parliament’s interference with the DAU distribution was not foreseen by the Law. However, the trouble was that the 2001 DAU distribution had been distorted because of lack of data on revenue sharing. So by holding regions harmless compared to 2001, it allowed the regions that received shared revenues to “double dip”, to receive both and inflated DAU and their shared revenues. For the year 2001, the DAU was supplemented by a “contingency fund” to absorb any mismatch between devolved expenditure responsibilities and revenues.

The Special Allocation Grant (DAK) is as of yet small. It consists of 5 types of grants which are forestry, education, health, rural roads and irrigation. In addition, new regions established in 2002 received a grant for public administration infrastructure. Law 32/2004 states that the DAK can be used for special needs of the regions, including emergencies, and for financing central priorities at the regional level. The forestry component is not really a special grant. Instead, it is the regional share of an allocated tax for reforestation. The funding consists of 40% of a forestry tax—meanwhile 60% is the central share—which is distributed on a derivation basis. The special allocation grants for education, health, rural roads and irrigation aim at

rehabilitation of existing facilities, and are distributed according to criteria which include the regions' fiscal capacity. Regions are supposed to apply to the central government for the grant, with proposals that meet the allocation criteria. However, the 2003 allocations were based only on criteria developed by the central government. Given that the grants finance largely local tasks (maintenance of facilities for local functions) it is hard to see how these meet central objectives, as was intended in the law.

The 2001 decentralization greatly increased the importance of shared revenues. The most important factor was the inclusion of oil and gas revenues and personal income tax in the taxes to be shared. The former were included to accommodate long-standing dissatisfaction of natural resource rich regions which felt that central government took their resources, and did not give back anything in turn. With the implementation of decentralization law, they now receive a significant share of those revenues as indicated in Table 8 below. In addition, the personnel income tax was included for sharing. For each of these shared taxes, the province gets a minor part, whereas the bulk of revenues goes to the local governments.

The sharing formulae for most revenues contain some element of equalization. For oil and gas, mining, and forestry, all local governments in the same province as the producing local government receive a share as well. For fisheries, property tax and land transfer tax, a small percentage of the revenue is shared by all local governments in Indonesia. These complex sharing mechanisms may well be redundant whatever a region gets from those shared taxes is counted as own fiscal capacity, and reduces the allocation of the DAU.

**Table 8. Revenue Sharing**  
(*Shared of revenues to central, provincial and regional government*)

Item	Central Government	Provincial Government	Originating Local Government	Other Local Governments in the same province	All Local Governments in Indonesia (Equal Share)
Oil (non-tax, onshore)	85	3	6	6	--
LNG (non-tax, onshore)	70	6	12	6	--
Mining: Land-rent	20	16	64	--	--
Mining: Royalty	20	16	32	32	--
Forestry: Land -rent	20	16	64	--	--
Forestry: Resource rent	20	16	32	32	--
Fishery	20			--	80
Land and Building Tax	9 <sup>a</sup>	16.2	64.8	--	10 <sup>b</sup>
Land and Building Transfer Fee		16	64	--	20
Personal Income Tax	80	8	12	--	--

<sup>a</sup> The central government's share in the Land and Building Tax is supposed to cover administrative costs. Not all categories of personal income tax are shared: excluded are taxes on self-employed income, dividends, and interest.

<sup>b</sup> According to Government Regulation 104/2000, of the 10 percent, 6.5 percent is shared equally among all regions, and 3.5 percent is distributed to those regions who exceeded their revenue target in the previous year.

*Source:* World Bank, 2003

There are a number of shared provincial taxes as well. Motor vehicle, vehicle transfer, and fuel excise tax are levied by the province, and shared with the local governments. Government Regulation 25/2000 gives the provincial government the right to distribute the local government share in an equalizing manner. However, the equalization effect of sharing these taxes compared to that of the DAU is likely to be small.

Decentralization greatly expands the scope for locally raised revenue, which primarily consists of taxes, user charges and income from regional enterprises. Law 18/1997, the previous law on regional taxes and levies, intended to stop the earlier practice of issuing an excess of regional taxes of regional taxes and charges. Many of these had little revenue potential, and high costs to the taxpayer and the economy.



Law 18/1997 therefore restricted regional taxes to a closed list, and made any additional tax proposals conditional upon approval of the Ministry of Finance.

Law 34/2000— amendment to the Law 18/1997 on Regional Taxes and Regional Levies—reverses the burden of proof. The law still gives a list of regional taxes but regional governments can add taxes through regional regulations approved by the regional parliaments, as long as it stands by the principles mentioned in the law as shown in Table 9. The regions have made sufficient use of this option, and have issued numerous new taxes and levies by regional regulation. While this has contributed to an increase in regional own revenues by some 50 percent since the start of decentralization, own revenue are still a modest share of the total. Moreover, many taxes and levies are seen to be damaging the business environment. Even if they contradict the law, such taxes and charges are not always canceled by the central government because supervision is weak and up to 60 percent are implemented by the regions without central government review. Absent from the list of regional taxes is the land and building tax, which in Indonesia is still a central tax, collected by the central tax authorities, and then shared with the regions.

Regarding to the regional borrowing, Law 32/2004 and Law 33/2004 allow the regions to borrow. They were already allowed to do so before 2001—under the Law 5/1974, but faced stricter approval procedures from the center. Now for domestic borrowing, only the local parliament has to approve, while indirect, rule-based controls limit borrowing. Regions are allowed to borrow from foreign sources with the permission of the central government, but without its guarantee. The regions are also allowed to borrow short term for cash flow management purposes.

**Table 9. Regional Taxes**

Type of Tax	Assignment	Max Rate	Sharing
Motorized Vehicles	Province	5%	30% to local govt
Motor Vehicle Transfer Tax	Province	10%	30% to local govt
Motorized Vehicles Fuel	Province	5%	30% to local govt
Utilization of Water	Province	20%	70% to local govt
Hotel Tax	Local	10%	A minimum of 10% of local government tax to be allocated to the relevant village.
Restaurant Tax	Local	10%	
Entertainment Tax	Local	35%	
Advertisement Tax	Local	25%	
Street Lighting	Local	10%	
Mining of C-Class Minerals	Local	20%	
Parking Tax	Local	20%	

*Source:* Law 34/2000

Beside of that, there are a variety of opportunities for increasing local government income. Aside from the fund transfers, local governments receive as contributions from State Owned Enterprises which operate in their areas, they are identifying new opportunities for revenue generation. Recognizing their flexibility to cooperate with private sectors, they have started to invite investors to develop the regions. They have also formulated new local regulations on taxes and retributions in their attempt to generate revenues.

Nevertheless there is unpredictable release of fund transfers from the central government to local governments. This makes it difficult to sustain services. Delays are also cited as the reason regions are imposing more local taxes and user charges to increase revenues. The collection of excessive taxes and user charges is hurting the community and local business.

Despite limited financial resources, local governments are maintaining the

services that they are expected to deliver and, in some sectors, increasing their expenditures. However the biggest portion of the local budget is allocated to salary. Salaries account for 57% of the budget. The next largest portion (25%) goes to “development” expenses, principally to the 11 fields of governance.

Due to structure of the budgetary system—the system is divided into the routine budget and the development budget—it is difficult to assess local government’s responsiveness to regional needs for services or government management. For example, it is hard to assess local government’s commitment to education directly, because all teacher expenses (which part of the service element) are part of the routine budget expenditure on personnel. There are communication limitations, both vertical and horizontal, among government institutions regarding their respective policies. This has made it difficult for local governments to obtain financial support, apart from the APBD, in the sectors for which they are now responsible.

In general, local governments use caution in budgeting. Standards have been formed for the use and allocation of local funds. Local governments are beginning to formulate more balanced budgets. Budgeting is more careful and stricter, especially for routine and development allocations. Financial planning involves the use of budgeting forms, which help rationalize the budget.

In the mean time, the role of local legislators in budgeting is increasing. This makes local legislator more flexible in setting priorities for development when they give inputs into development plans. Legislative control of local government expenses

is emerging. Mechanisms for legislative finance management are stricter.

Autonomy motivates people's participation and the emergence of transparency in local finance management. Local finance is one area in which citizens are interested to be involved. There have been demands for public consultation in the formulation of the local budget draft (RAPBD). There are efforts to meet these demands. In some cases, local governments opened public debates on local budget allocation. Governments have also invited civil society organizations (CSOs) to help draft the local budget. The press plays a role in reporting on the use of local funds, and this encourages more transparency.

However there is lack of clarity and citizen participation in the planning and budgeting process. The budget reflects local government priorities, becoming final after it is passed as legislation by the DPRD. Because the budget process has not significantly involved citizens, civil society groups feel that the budget does not reflect the citizens' aspirations. For example, budgets typically contain only minimal allocations for development and women's empowerment. There are no institutionalized mechanisms for substantive citizen participation in the budget process, and the process as a whole lacks transparency. In almost all regions, citizen involvement is limited to attending the DPRD session when it is already scheduled to approve the budget.

Thus lack of clarity on the law. The budget management system still follows the old laws and does not yet accommodate the spirit of Laws 32 and 33. While the law provides the framework for fiscal autonomy, local governments are constrained

by possible conflicts between local and national regulations that may result from the incompleteness of supporting regulations.

Additionally there is insufficient budgeting capacity. Many of the legislators neither understand nor are skilled in the budgeting procedures. The form of the local budget is complex. Another problem is persistent secrecy around the budget. The general perception remains that the local budget is a secret document and that citizens do not have access to financial information. Civil society groups are not adequately represented in local fiscal management, and there is limited socialization of local legislators related to revenue generation and budgeting.

The asset transfer process is unclear. There has been a formal transfer of assets, but in practice the transfer has yet to take effect. The status of many national government assets that are expected to be transferred to local government is not clear. There is little information available as to whether or not these have been sold. Some asset transfers are not validated by authentic documentation.

In reality the policy on the general allocation grant/DAU process is indistinct, and local understanding is limited. There are issues associated with formulation, manipulation, transparency, and the way the process is implemented. There are complaints about the DAU formula and criteria used for the computation. Most of the problems stem from the lack of understanding and information about the DAU allocation on the part of local governments as well as the public. The lack of information and the existence of DAU 'brokers' and manipulators are signs of lack of transparency in the allocation process. These problems are compounded by

inconsistent timing. The schedule for settlement of the DAU does not facilitate the drafting of the local budget (RAPBD). Presently, local governments have to plan the RAPBD without a clear sense of how much they will receive in fund transfers from the national government. Planning would improve if, in formulating their RAPBD, local governments had sufficient information about their expected revenues, including the DAU. This is most important in poorer regions.

The transfer of fiscal revenue resources from central government remains problematic and, to augment their revenue, local governments have resorted to increasing taxes and implementing user charges on various services such as public market stalls, terminals, and various licenses. Funding is insufficient to support all of the responsibilities devolved by the central government.

In terms of accountability, lack of standard audit procedures remains. This reinforces unresponsiveness to demands for greater transparency and accountability. The only audit is conducted by the regional supervisory agency, which is a local institution. Generally, reporting is only internal. In some regions, the audit reports are also submitted to the DPRD, but there is no follow-up by the DPRD.

DPRDs lack the necessary skills to conduct oversight because of not enough capacity. The DPRD monitoring function does not extend equally to all sectors of government, it occurs mostly in area that involves large expenditures, such as physical infrastructure and investment. Monitoring of public service provision is still insufficiently rigorous, and has not extended to the wider impact of policy implementation. In many cases, this has resulted in decreased accountability,

participation, and public service provision.

There are indications that efforts to uphold the law are still weak. For example, there are reports that DPRD members act in the interest of their political parties or factions, as opposed to the interest of the people. This renders the monitoring function ineffective. In several regions, the monitoring function is hindered by racketeering/extortion/tugs (*premanisme*) and nepotism.

### **C. Monitoring System on the Local Government by the Central Government**

Decentralization in Indonesia is implementing in the framework and to strengthen the unity of the country. It has unique form of decentralization. Under decentralized system, the government has devolved some of duties or authorities to local governments with the purpose of quality improvement and better services to the local people concerning of local culture and aspirations. Yet the central government is the highest authority and still has the power over local governments in some areas.

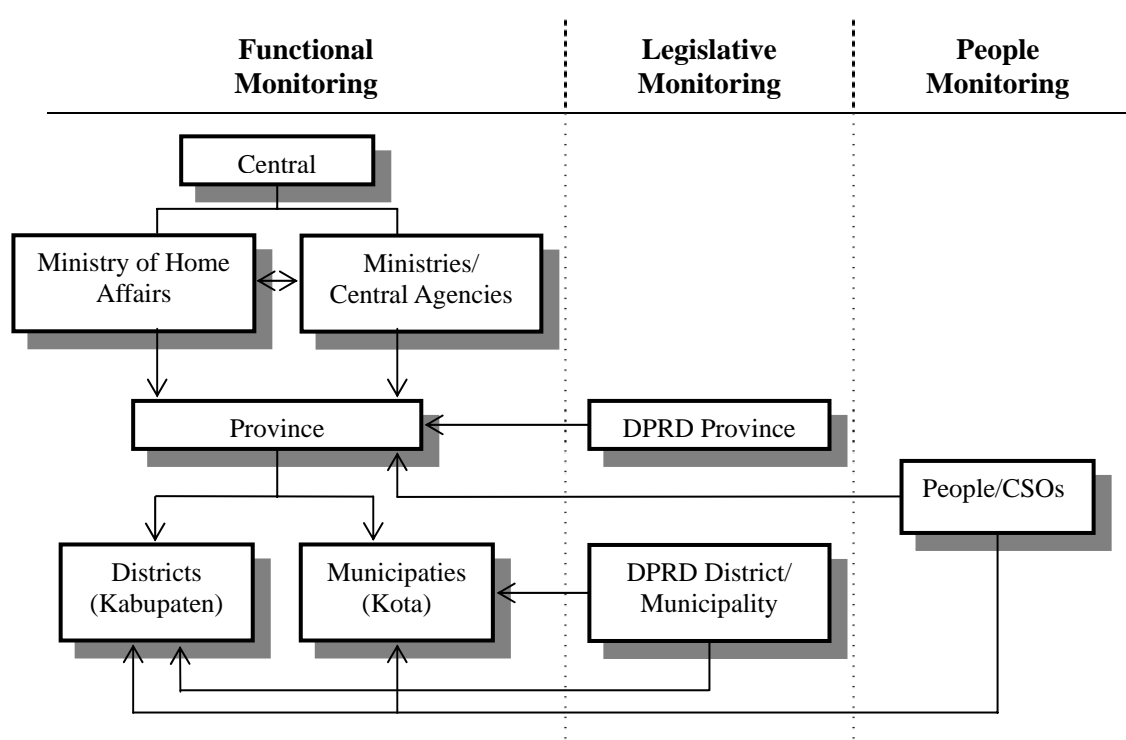
The decentralization has changed the relationship among the level of governments. Before the Law 32/2004—under Law 22/1999, there is no hierarchical relationship between province and local government—provincial governments were still seeking an appropriate role in the decentralized system. They appeared to be unsure of how they fit in the new set-up. Some were playing a coordination role in local cooperation. Provincial government plays almost no role in reviewing the local regulations. They simply receive copies of the local regulations made by the districts, and they are not an integral part of the review procedure.

Then after the Law 32/2004 regulated the provincial governments in decentralization era, vertical relations between central and local governments (including between the province and the kota/kabupaten) are evolving. These relations define the division of labor between the governmental levels, and they are important to advancing the aspirations of local governments that are carrying out new functions. Given the perceived lack of clarity in the roles of different levels of government, there is a debate about whether the present policy environment is sufficient for clarifying them. Many believe that no less than national legislation or a presidential decree is required. In the interim, both central and local governments rely on the existing “legal products.” PP 25/2000 (on Powers of the Government and Powers of the Provinces as Autonomous Regions) and PP 20/2001 (on Supervision and Guidance for Regional Governance) assigned ministries the role of providing guidance, through the provinces, by setting the norms, standards, criteria, and procedures to support the implementation of the transferred authority. The formulation of the minimum standard and other memoranda contribute to developing a positive relationship—one that enhances the abilities of all parties to meet the overall goals of decentralization—between the kabupaten/kota and the central government (directly or via the provincial government).

In order to clarify the monitoring system on local government, the government has also enacted Presidential Decree 74/2001 on Supervision Customs on Regional Governments Implementation. The monitoring system covers functional, legislative, and people supervision.



**Figure 7. Monitoring on Local Governments**



*Source: Keppres 74/2001*

Nonetheless, the division of authority between the central – provincial – kabupaten/kota levels of governments is unclear. This has resulted in confusion regarding the role of the provinces in a decentralized set up, despite PP 25/2000 and Keppres 74/2001. They feel that more guidelines are needed to clarify the roles between vertical levels of local government.

Because of that, there is different understanding of the concept of autonomy among central government agencies and among local governments. There are differences in the ways various ministries interpret the law and the concept of autonomy. Similarly, there are differences at the local level, between provinces and kabupaten/kota. At both levels, these differences create different expectations.

Other major problem came because of slow mind shift towards seeing local governments as partners. There are complaints that local governments can now disregard central government programs without sanctions or consequence or that they do not submit reports (data) when requested. Some central government agencies also question the ability of the local governments to perform their assigned functions. As a result, some central government agencies are reluctant to work with local governments.

In terms of the review process, the Ministry of Home Affairs has the power to monitor local regulations making process. However, the main issue is coordination between Ministry of Home Affairs and the technical departments in reviewing the local regulations. Under the law, local government must submit local regulations to the Ministry of Home Affairs, not to the relevant ministry. However, the technical departments are very slow in responding to and reviewing local regulations that they receive from the Ministry of Home Affairs.

Besides the monitoring system conducted by central government, DPRD has great role in monitoring all policy and programs made by local government under decentralized system. A new paradigm has started to emerge in the regions at the provincial, district and municipal levels. It is apparent that there has been a significant change in the attitudes of local assembly members. They have become more responsive to the aspirations of the local communities, and have begun to involve themselves directly in clarifying and following up individual criticisms and demands by their local constituents. In addition, open public debates have begun to flourish. The members of the local assemblies have started to use their position and authority to

exercise a degree of control over the performance of local senior public servants, as well as becoming more critical of local government policies. These changes are evidenced by the increasing level and frequency of debates over policy and legislation.

## **VI. POLICY RECOMMENDATION**

Based on experience in Indonesia, we can conclude that decentralization policy is a better alternative to closer the government to the people and increase quality and quantity of service delivery. However, decentralization in Indonesia is still facing many problems because of the relation between central and local government has changed several times.

Therefore after evaluating the implementation of decentralization based on administrative empowerment, financial empowerment, and monitoring system on the local government by the central government aspects, we could give some of recommendation in order to improve its performance in the future.

### **A. Administrative Empowerment**

- The vision when interpreting decentralization policy and autonomy concept has to be equal in all government levels.
- The entire of government layers have to demonstrate their strong commitment to support decentralization policy for the sake of people as their stakeholder.
- Central government agencies must provide supporting regulations to facilitate the amendment of local legislation, which is believed inconsistent with the decentralization law.
- To improve administrative empowerment, local governments need standards or criteria by which they can assess their performance. These go further than

minimum service standards. Local governments need performance indicators to objectively assess their performance, not just in service delivery, but in all aspects of their functions as well.

- People should support the performance standards. This will guarantee that public feedback is objectively enough and accurately assesses local government performance.
- Local governments should set up their own regulations on these standards as soon as possible in the absence of public service standards from the central government. Simultaneously, central government needs to start developing national minimum public service standards that local governments can use as a point of reference.
- Local governments have to enhance their understanding and technical capability in minimum standard of services to reduce the possibility of error in its use and application.
- One-stop service systems that are successful in some regions need to disseminate to other regions.
- Main concern should be given to formalizing mechanisms for citizen or civil society organizations response about local government performance and services, and for publicizing information about good practices that can be imitated.
- Within agriculture sector, central government should formulate a national framework for agriculture, in the form of a policy that local governments can utilize such as service standards. This framework should explain whether there should be land reform or not and to clarifying the overall direction of the central government. The framework will give a starting point for local planning and budgeting. With such a framework, the central government will also be in a better position to advise local governments in making their plans responsive to local

needs.

- In realm of investment, both central and local government must give legal certainty and assurance over security for business environment to boost local development. The central government should then provide a framework or guidelines for carrying out local government's investment functions. Such guidelines would illuminate problems about powers and responsibilities of local governments in attracting local and foreign investment, land issues, licensing, and guarantees and incentives for prospective investors.
- Related to the transferred of personnel from central government, local governments ought to implement transparent procedures that provide for the appointment of career personnel based on competence or meritocracy rather than political considerations. They also have to guarantee that training provided to personnel is targeted to improving the technical and functional performance of each working unit.

## **B. Fiscal Empowerment**

- Finding innovative ways to generate revenues, beside taxes and user fees are desirable. Local governments have to consider the business environment, investment, and local economy when creating new taxes and fees. Support from central government, such as discover alternative sources of local revenues or alternative ways to funding programs and projects, is important in increasing local government fiscal capability.
- The central government has always to inform the local governments about how fund transfers are decided and when they are released to evade controversy and

speculation.

- Local governments must link the budget to strategic plans, targets, goals, and objectives due to the limited financial resources in most regions. It will allow an objective assessment of what is accomplished in various sectors and functions. Moreover, it will require greater transparency so that the citizen becomes realistic and fair in assessing government performance.
- Instruments for citizen participation in the budgeting and planning process must be set up by local governments. At the same time, civil society organizations must develop their skills in budget and planning matters so that they can give substantive input when they involve in the process.
- Local governments must directly involve in the process of formulation, decision, and allocation of General Budget Allocation (DAU) and it has to be open and appropriate.
- There should be a mechanism for consultation and public complaints on DAU. Thus such mechanism is also needed on other revenue sharing funds (Special Allocation Fund—DAK, taxes and natural resources).
- There should be unambiguous regulations that will direct settled management of asset transfer from the central government until the village level. Furthermore, there is a need to document assets that have been transferred. This requires reconciling the central government's claims regarding asset transfer with the records of what the local governments have actually received.

### **C. Monitoring System on Local Government by Central Government**

- There should be clarification about the role and relationships between central-

provincial-local levels in order that each level can effectively discharge its functions, particularly for the provincial level. Clarity is needed on how the province can be an autonomous unit and simultaneously a “representative of the central government.”

- To improve monitoring system besides from central government, developing civil society organizations skills in policy advocacy, lobbying, and negotiating with local government is desired.
- The central government ought to create an instrument to guarantee that efforts to disseminate minimum public service standard are followed up and continued.
- The central government should provide support to local governments for institutionalized participatory development processes that more concern on people-oriented leadership and customer-oriented public service.
- Active participation of civil society groups and local citizens in all local policy-making stages—planning, monitoring, and evaluation—need to be guaranteed by laws and regulations. It could be national-level guarantees through the local Governance Law and its applying regulations, or local level guarantees through local regulations. Public involvement is critical to sustain the emergence of transparency and accountability. Participation mechanisms will require changes on the part of both civil society and local government.
- Regarding to the DPRD, its members should reinforce their political commitment to represent their constituents.
- Technical assistance for DPRD members should be designed according to their needs and capabilities. Technical assistance such as training would enhance the capacity of the DPRD to implement its role as a body of chosen representatives of the people. Training in drafting laws and budgeting is urgently needed.



- The involvement of local society representatives, the mechanisms or procedures which local society should be involved, and the sanctions for local governments that do not involve local society in their decisions, should be regulated by national-level law or regulation.
- The regulations on local political parties should be adjusted. The adjustment should guarantee that there are sufficient mechanisms for making political institutions (executive, legislative bodies and political parties) carry out the duties expected of them in a democracy.
- To anticipate the flourishing establishment of new regions, central government should conduct a comprehensive, independent, and participatory evaluation to assess the effectiveness of the establishment of new regions up till now.
- Consistent with existing decentralization laws, the central government should provide a clearer and more complete regulatory framework that will define the local government relationships through dialogue with national and local governments.
- The central government has to ensure that local governments make evaluation of the current organizational structure is based on an analysis of regional requirements.
- A positive relationship through existing mechanisms should be actively explored by central and local governments. It can be done in the course of formulation of service standards, and other informal mechanisms like consultation and coordination.

## APPENDIX

### LAWS AND REGULATIONS RELATED TO DECENTRALIZATION/REGIONAL AUTONOMY<sup>1</sup>

Constitution	
•	The 1945 Constitution of the Republic Indonesia
•	First Amendment to the 1945 Constitution
•	Second Amendment to the 1945 Constitution
•	Third Amendment to the 1945 Constitution

MPR Decrees	
• MPR Decree III/2000	Source of Law and the Hierarchy of Legal Instruments
• MPR Decree IV/2000	Policy Recommendation in Implementing Regional Autonomy

Laws	
• Law No. 32/2004	Amendment to the Law No.22/1999 on Regional Administration
• Law No. 33/2004	Amendment to the Law No. 25/1999 on the Fiscal Balance Between Central and Regional Government
• Law No. 13/2002	Establishment Bima City in West Nusa Tenggara Province
• Law No. 12/2002	Establishment Pariaman City in West Nusa Sumatera Province
• Law No. 11/2002	Establishment Mamasa Regency and Palopo City in South Nusa Sulawesi Province
• Law No. 10/2002	Establishment Parigi Moutong Regency in Central Sulawesi Province
• Law No. 9/2002	Establishment Rote-Ndao Regency in East Nusa Tenggara Province
• Law No. 8/2002	Establishment Talaud Archipelago Regency in North Sulawesi Province
• Law No. 7/2002	Establishment Penajam Paser Regency in East Kalimantan Province
• Law No. 6/2002	Establishment Banyuasin Regency in South Sumatera Province

<sup>1</sup> Source: GOI and <http://www.gtzfdm.or.id>

• Law No. 5/2002	Establishment Katingan Regency, Seruyan Regency, Sukamara Regency, Lamandau Regency, Gunung Mas Regency, Pulang Pisau Regency, Murung Raya Regency and East Barito in Central Kalimantan Province
• Law No. 4/2002	Establishment South West Aceh Regency, Nagan Raya Regency and Aceh Tamiang Regency in Nanggroe Aceh Darussalam Province
• Law No. 21/2001	On Special Autonomy for the Papua Province
• Law No. 18/2001	Special Autonomy for Daerah Istimewa Aceh as Nanggroe Aceh Darussalam Province
• Law No. 15/2000	Amendment to the Law No. 55/1999 on Landak Regency Establishment
• Law No. 14/2000	Amendment of Law No. 54/1999 on Sarolangun Regency, Tebo Regency, Muaro Jambi Regency and Tanjung Jabung Regency Establishment
• Law No. 13/2000	Amendment to the Law No. 53/1999 on Palalawan Regency, Rokan Hulu Regency, Rokan Hilir Regency, Siak Regency, Karimun Regency, Natuna Regency, Kuantan Singingi Regency, and Batam City Establishment
• Law No. 12/2000	Amendment to the Law No. 52/1999 on Lambata Regency Establishment
• Law No. 11/2000	Amendment to the Law No. 51/1999 on Buol Regency, Morowali Regency and Banggai Archipelago Regency Establishment
• Law No. 10/2000	Amendment to the Law No. 50/1999 on Boalemo Regency Establishment
• Law No. 9/2000	Amendment to the Law No. 49/1999 on Mentawai Archipelago Regency Establishment
• Law No. 8/2000	Amendment to the Law No. 48/1999 on Bireuen Regency and Simeulue Regency Establishment
• Law No. 7/2000	Amendment to the Law No. 47/1999 on Nunukan Regency, Malinau Regency, West Kutai Regency, East Kutai Regency and Bontang City Establishment
• Law No. 6/2000	Amendment to the Law No. 46/1999 on North Maluku Regency, Buru Regency and West Maluku Tenggara Establishment
• Law No. 5/2000	Amendment to the Law No. 45/1999 on Central Irian Jaya Province, West Irian Jaya Province, Paniai Regency, Mimika Regency, Puncak Jaya Regency and Sorong City Establishment
• Law No. 34/2000	Amendment to the Law No. 18/1997 on Regional Taxes and Regional Levies
• Law No. 43/1999	Amendment to the Law No. 8/1974 on the Ordinance of the Civil Service
• Law No. 41/1999	Forestry Law
• Law No. 34/1999	Government of the Capital City of Republic Indonesia, Jakarta Province
• Law No. 31/1999	Combating Corruption as a Criminal Act
• Law No. 28/1999	Implementing Good Governance and Free of Corruption, Collusion and Nepotism

<b>Government Regulations</b>	
• Government Regulation No. 84/2001	Amendment to the Government Regulation No. 104/2001 on Balance Fund
• Government Regulation No. 76/2001	General Guidelines for Organizing Rural
• Government Regulation No. 70/2001	Airport
• Government Regulation No. 69/2001	Harbor
• Government Regulation No. 65/2001	Regional Taxes
• Government Regulation No. 66/2001	Regional Levies
• Government Regulation No. 56/2001	Reporting on Regional Administration
• Government Regulation No. 52/2001	Implementation the Supporting Duty
• Government Regulation No. 39/2001	Organizing Deconcentration
• Government Regulation No. 20/2001	On Fostering and Supervision of Local Governance
• Government Regulation No. 11/2001	Concerning Information on Regional Finances
• Government Regulation No. 2/2001	Concerning Protection and Transfer of the State Owned Goods/Properties from Central Government to Regional Government in the Process of Regional Autonomy Implementation
• Government Regulation No. 1/2001	Concerning the Guidelines on Compiling Regional House of Representative Regulations
• Government Regulation No. 151/2000	Concerning Election Procedure, Legalization and Dismissal of Regional Head and Sub-Head
• Government Regulation No. 129/2000	Concerning Formation Rules and Regulations and Development Criteria, Elimination and Regional Merging
• Government Regulation No. 115/2000	Concerning Distribution of Citizens Income Tax Outcome Acceptance and Income Tax on Article 21 Between Central Government and Regional Government
• Government Regulation No. 114/2000	Concerning Cancellation of Government's Regulation No. 33/1997 on Distribution of Revenue on Land and Building Rights Between Central and Regional Governments
• Government Regulation No. 110/2000	Concerning Financial Status of the Regional House of Representative
• Government Regulation No. 109/2000	Concerning Financial Status of the Regional Head and Sub-Head
• Government Regulation No. 108/2000	Concerning Procedure Accountability of the Regional Head
• Government Regulation No. 107/2000	Concerning Regional Government Borrowing
• Government Regulation No. 106/2000	Concerning Financial Management and Accountability in Implementation of Deconcentration and Supporting Duty
• Government Regulation No. 105/2000	Concerning Region's Financial Management and Accountability
• Government Regulation No. 104/2000	Concerning Equilibrium Funds
• Government Regulation No. 101/2000	Concerning Education and Training for State Civil Employee

• Government Regulation No. 100/2000	Concerning State Civil Employee's Appointment in a Structural Position
• Government Regulation No. 99/2000	Concerning Promotion of Civil Servants
• Government Regulation No. 98/2000	Concerning Provision of Civil Servants
• Government Regulation No. 97/2000	Concerning Formation of Civil Servants
• Government Regulation No. 96/2000	Concerning Civil Servant's Authorization of Promotion, Relocation and Dismissal
• Government Regulation No. 84/2000	Concerning Regional Apparatus Organization Guideline
• Government Regulation No. 62/2000	Concerning Relocation of West Lombok Regency City
• Government Regulation No. 25/2000	Concerning Government Authority and The Provincial Authority as an Autonomous Region
• Government Regulation No. 68/1999	Concerning Implementation Procedure of Public's Role in the State's Implementation

<b>Presidential Decrees</b>	
• Presidential Decree No. 40/2001	Concerning Institutional Guidelines and Regional Hospitals Administration
• Presidential Decree No. 10/2001	Concerning Regional Autonomy Implementation on Land Affairs
• Presidential Decree No. 74/2001	Concerning Supervision Customs on Regional Governments Implementation
• Presidential Decree No. 39/2001	Concerning Utilizing of Contingency Fund for Assistances in Personnel Transfer, Equipments, Payments and Documents (P3D) to Regional Government
• Presidential Decree No. 6/2001	Concerning Determination of Numbers and Procedures in Filling up Membership of Regional House Representative in New Provinces and Regencies/Cities after the Election year 1999
• Presidential Decree No. 5/2001	Concerning the Implementation of Regency/City Authorities
• Presidential Decree No. 159/2000	Concerning Guidelines for Formation of Regional Civil Service Bureaus
• Presidential Decree No. 151/2000	Concerning Amendment to Presidential Decree No. 49/2000 on Regional Autonomy Advisory Council as already amended by Presidential Decree No. 84/2000
• Presidential Decree No. 49/2000	Concerning Regional Autonomy Advisory Council
• Presidential Decree No. 18/2000	Concerning Guidelines for The Implementation of The Procurement of Goods/Services for Government Agencies
• Presidential Decree No. 17/2000	Concerning the Implementation of the State Revenues and Expenditures Budget

Other Regulations and Guidelines	
• Decree of The Minister of Finance No. 141/KMK.07/2001	Regional Financial Information System
• Decree of The Minister of Finance No. 154/KMK.07/2001	Formation and Procedures of Regional Finance Information Submission
• Decree of The Minister of Finance No. 346/KMK.07/2001	Establishment of Draft Law Formation Team on Law Amendment No. 25/1999 About Central and Local Fiscal Balance
• Decree of The Minister of Finance No. 343/KMK.06/2001	Fixation of Regional Total Allocation From Oil and Natural Gas Resources, General Mining and Fisheries for 2001
• Decree of The Minister of Finance No. 344/KMK.06/2001	Regional Fund Distribution From Natural Resources
• Decree of The Minister of Finance No. 368/KMK.06/2001	Agreement on How to Use Partial Fund of Non-Taxable State Income from Provincial Forest Resources in the Department of Forestry
• Decree of The Minister of Finance No. 575/KMK.06/2001	Amendment of the Minister's Decree No. 343/KMK.06/2001 re. Fixation of Regional Total Allocation From Oil and Natural Gas Resources, General Mining and Fisheries for 2001
• Decree of The Minister of Finance No. 491/KMK.02/2001	Special Allocation Fund (DAK) State Budget Reforestation Fund of 2001
• Decree of The Minister of Finance No. 564/KMK.02/2001	Issuance of Authorization Decree Letter (SKO) as a Foundation of Fund Legalization of Regional Production Sharing From Land and Building Taxation Revenues
• Decree of The Minister of Finance No. 655/KMK.02/2001	Amendment to the Minister's Decree No. 556/KMK.07/2001 re. Procedures of DAU and DAK Allocation
• Decree of The Minister of Finance No. 625/KMK.01/2001	Amendment to the Minister's Decree No. 99/KMK.07/2001 re. Postponement of Regional Borrowing Implementation
• Decree of The State Civil Service Agency No. 9/2001	Implementation of Government Regulation No. 97/2000 re. Formulation of Civil Servants
• Decree of The Minister of Home Affairs No. 41/2001	Regional Policy Repressive Control
• Decree of The National Civil Service Agency No. 43/KEP/2001	Standard of Structural Competencies of State Civil Servants
• Decree of The Minister of Home Affairs and Regional Autonomy No. 23/2001	Forms of Regional Law Formation
• Decree of The Minister of Home Affairs and Regional Autonomy No. 22/2001	Form of Regional Law Products
• Decree of The Minister of Home Affairs and Regional Autonomy No. 17/2001	Functional Control Authorization From Regions to the Governor
• Decree of The Minister of Finance No. 344/KMK.06/2001	Concerning the Distribution of Funds Being Portion of Region from Natural Resources

<ul style="list-style-type: none"> <li>Decree of The Minister of Industry and Trade No. 78/MPP/Kep/3/2001</li> </ul>	Concerning Guidelines of Minimum Standard of Service (PSPM) in the Trading and Industrial Field
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 13/2001</li> </ul>	Government Administration Area Data
<ul style="list-style-type: none"> <li>Circular Letter of The Minister of Home Affairs No. 061/729/TJ dated March 21, 2001</li> </ul>	Regional Apparatus Formation
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs No. 80/MPP/Kep/3/2001</li> </ul>	Remittance of State Ownerships within the Department of Industry and Trade to be Transferred of Regional Government
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 8/2001</li> </ul>	Guidance on Civil Servants Who are Chosen to be The Village Head or Appointed to be Village Apparatus
<ul style="list-style-type: none"> <li>Circular Letter No. 118/1500/PUMDA</li> </ul>	Rearrangement of Authority and Institutions
<ul style="list-style-type: none"> <li>Circular Letter No. 118/1379/PUMDA</li> </ul>	Working Plan on how to Accelerate the Implementation of Laws No. 22 and 25 of 1999
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 16/2000</li> </ul>	Guidance on Forming Regional Government Association and Fixing Regional Government Representative Association as Members of Regional Autonomy Advisory Board
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 118-281/2000</li> </ul>	Forming Regional Autonomy Advisory Board Secretariat
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs No. 556/KMK.03/2000</li> </ul>	Procedures of DAU and DAK Distribution
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs No. 523/KMK.03/2000</li> </ul>	Procedures of Budgeting, Funds Distribution, Responsibility and Reporting of Deconcentration Implementation and Assistance
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 50/2000</li> </ul>	Guidance on Organization Formulation and Regional Regency/City Apparatus Working Procedures
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 48/2000</li> </ul>	Guidance on Letter Writing Procedures within Regency/City Governments
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs and Regional Autonomy No. 47/2000</li> </ul>	Guidance on Letter Writing Procedures within Provincial Government
<ul style="list-style-type: none"> <li>Decree of The Minister of Home Affairs No. 65/99</li> </ul>	General Guidance on How to Arrange a Mutual Assistance Association in the Kampung
<ul style="list-style-type: none"> <li>Decree of Minister of Home Affairs No. 64/99</li> </ul>	General Guidance on How to Arrange Village
<ul style="list-style-type: none"> <li>Decree of Minister of Home Affairs No. 63/99</li> </ul>	Implementation Guidance and Adjustment of Terminology in Organizing Kampung and Village Government
<ul style="list-style-type: none"> <li>The Regulation of Minister of Home Affairs No. 4/99</li> </ul>	Extraction of Several Regulations, Decrees and Instructions Concerning the Implementation of Law No. 5/1979 re. Village Government

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